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Not-for-profit entities : accounting trends & techniques : financial statement reporting and disclosure practices

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Not-for-Profit Entities
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Not-for-Profit Entities

Accounting Trends & Techniques

Financial Statement Reporting and Disclosure Practices


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RECOGNITION

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PREFACE

ABOUT THIS EDITION OF *ACCOUNTING TRENDS & TECHNIQUES–NOT-FOR-PROFIT ENTITIES*

This publication provides illustrative financial statements and related disclosures for nongovernmental not-for-profit entities (NFPs), other than health care providers. The examples contained herein have been adapted from actual examples of audited financial statements of NFPs whose names and other identifying information have been changed. This publication is published by the Accounting and Auditing Publications team of the AICPA and is intended to provide practitioners with nonauthoritative practical guidance on such financial statements and disclosures.

This edition of the publication has been updated by the AICPA staff to include certain changes necessary to keep this publication current on industry matters. Relevant guidance contained in official pronouncements issued through April 1, 2010, has been considered in the development of this edition of the book. This guidance includes the following:

- Financial Accounting Standards Board (FASB) *Accounting Standards Codification* (ASC 410), *Asset Retirement and Environmental Obligations.*
- FASB ASC 715, *Compensation—Retirement Benefits.*
- FASB ASC 740, *Income Taxes*, as it relates to uncertain tax positions.
- FASB ASC 815, *Derivatives and Hedging*; additional disclosures under FASB ASC 815-10-50, which are effective for fiscal years beginning after November 30, 2008, are not included.
- FASB ASC 820, *Fair Value Measurements and Disclosures*; additional disclosures required by Accounting Standards Update 2010-06 are not included.
- FASB ASC 825, *Financial Instruments.*

Financial Statement Examples

The examples contained herein have been adapted from actual examples of audited financial statements of NFPs whose names and other identifying information have been changed. The entity names used in this publication are fictitious. Any resemblance or similarities to real entities is entirely coincidental and beyond the intent of the author, the staff, or the AICPA. Many of these examples as printed here omit $(000) or $(000,000) from the original; this is not noted. Accordingly, some columns and rows of numbers may not appear to add to the totals given; this is due to rounding. All years have been changed to reflect the current year as 20X2 (with 20X1 as the prior year and 20X3 as the succeeding year).

Some examples refer to "the university" or some other specific type of NFP. This merely reflects the fact that certain types of transactions and balances are found especially often in the type of entity named. It is not intended to imply that other types of entities cannot use similar presentations and disclosures if appropriate, or that entities of the named type must use any particular format.

For the most part, requirements for the use of specific titles and formats of financial statements of NFPs are not set forth in the professional literature (for example, FASB ASC 958-205-45-1 states that the degree of aggregation and order of presentation of items of assets and liabilities in statements of financial position or of items of revenues and expenses in statements of activities of NFPs, although not specified, generally should be similar to those required or permitted for business entities. Particular formats for a statement of financial position, a statement of activities, or a statement of cash flows, are neither prescribed nor prohibited in part because similar prescriptions and proscriptions do not exist for business entities.) However, current practice and the statement's purpose suggest that a statement of cash flows only be titled "Statement of Cash Flows." The example titles in this publication are not intended to indicate that these are the only acceptable titles. (See also footnote 1 to chapter 3 of the AICPA Audit and Accounting Guide *Not-for-Profit Entities* [the guide].*) Also, the choice of a particular format (for example, multicolumnar) for one statement does not limit the choices available for other statements as long as all required information is presented.

The guidance provided by FASB ASC 205-10-45 encourages, but does not require, the presentation of prior-year comparative financial information. Some of the examples in this publication include comparative information; in the interests of space, not all do so. Some entities that present information in a multicolumnar format choose to present only a total column in some or all statements for the prior period. If this is done, paragraphs 3.30 and 3.31 of the guide should be consulted for guidance.

Many entities follow the practice of including one of the standard phrases, “The accompanying notes are an integral part of these financial statements,” or “See accompanying notes,” or variations thereof, at the bottom of each financial statement. Others insert references to specific notes near the captions or parts of other notes to which the notes refer. Neither practice is illustrated here; entities should follow their own preferences in this regard.

Note that information in the disclosure examples in sections 6 and 7 often is related to both financial position and activities statements, so both sections should be consulted for examples on various subjects.

For example, disclosures about split-interest agreements refer to both the assets and liabilities associated with such agreements, as well as the related contribution revenue. These sample disclosures are included in section 7, but are also relevant to section 6.

Organization and Intent

This publication is organized to be used as a reference tool for presentations and disclosures for NFPs as follows:

Illustrative financial statements are presented in the following sections:

- Section 1 contains illustrative Statements of Financial Position.
- Section 2 contains illustrative Statements of Activities, including changes in Net Assets.
- Section 3 contains illustrative Statements of Cash Flows.
- Section 4 contains illustrative Statements of Functional Expenses.

Illustrative note disclosures are presented in the following sections:

- Section 5 contains illustrative disclosures—general.
- Section 6 contains illustrative disclosures related primarily to the Statement of Financial Position.
- Section 7 contains illustrative disclosures related primarily to the Statement of Activities and Related Statements.

Additional information is presented in the following sections:

- Section 8 contains illustrative financial statements prepared on a basis other than U.S. generally accepted accounting principles (GAAP).
- Section 9 contains illustrative information outside the financial statements.
- The appendix contains excerpts from the AICPA Audit and Accounting Guide *Not-for-Profit Entities*.

These disclosures are intended as nonauthoritative guidance only. Sample notes are not necessarily complete or unedited reproductions of the originals. In some cases, certain disclosures may be missing from the sample statements or notes because in the originals, this information was provided elsewhere in the statements or notes.

For further guidance on preparation of financial statements and related disclosures specific to NFPs, see the following:

- Subtopics 205–230 of FASB ASC 958, *Not-for-Profit Entities*
- AICPA Technical Publications
- AICPA Audit and Accounting Guide *Not-for-Profit Entities*
- AICPA’s *Checklists and Illustrative Financial Statements for Not-for-Profit Entities*

This publication is not a substitute for the authoritative pronouncements. Users of this publication are urged to refer directly to the applicable authoritative pronouncements for further guidance.

* References throughout this publication to the AICPA Audit and Accounting Guide *Not-for-Profit Entities* are to the edition with conforming changes as of March 1, 2010.

FASB ASC

In June 2009, FASB issued the last FASB statement referenced in that form: FASB Statement No. 168, *The* FASB Accounting Standards Codification™ *and the Hierarchy of Generally Accepted Accounting Principles—a replacement of FASB Statement No. 162*. This standard established FASB ASC as the authoritative source of U.S. accounting and reporting standards for nongovernmental entities, in addition to guidance issued by the Securities and Exchange Commission (SEC), and is effective for financial statements issued for interim and annual periods ending after September 15, 2009.

This standard flattened the historic U.S. GAAP hierarchy to two levels: one that is authoritative (in FASB ASC) and one that is nonauthoritative (not in FASB ASC). Exceptions include all rules and interpretive releases of the SEC under the authority of federal securities laws, which are sources of authoritative U.S. GAAP for SEC registrants, and certain grandfathered guidance having an effective date before March 15, 1992.

Overview

Released on July 1, 2009, FASB ASC is a major restructuring of accounting and reporting standards designed to simplify user access to all authoritative U.S. GAAP by topically organizing the authoritative literature. FASB ASC disassembled and reassembled thousands of nongovernmental accounting pronouncements (including those of FASB, the Emerging Issues Task Force, and the AICPA) to organize them under approximately 90 topics.

FASB ASC also includes relevant portions of authoritative content issued by the SEC, as well as selected SEC staff interpretations and administrative guidance issued by the SEC; however, FASB ASC is not the official source of SEC guidance and does not contain the entire population of SEC rules, regulations, interpretive releases, and SEC staff guidance. Moreover, FASB ASC does not include governmental accounting standards.

FASB published a notice to constituents (NTC) that explains the scope, structure, and usage of consistent terminology of FASB ASC. Constituents are encouraged to read this NTC because it answers many common questions about FASB ASC. FASB ASC, and its related NTC, can be accessed at http://asc.fasb.org/home and are also offered by certain third party licensees, including the AICPA. FASB ASC is offered by FASB at no charge in a Basic View and for an annual fee in a Professional View.

FEEDBACK

We hope that you find this edition of *Accounting Trends & Techniques—Not-for-Profit Entities* to be informative and useful. Please let us know. What features do you like? What do you think can be improved or added? We encourage you to give us your comments and questions about all aspects of this publication. Please direct your feedback to Christopher Cole, using the following contact information. All feedback is greatly appreciated and kept strictly confidential.

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SECTION 1: STATEMENTS OF FINANCIAL POSITION

1.01

Financial Accounting Standards Board (FASB) *Accounting Standards Codification* (ASC) 958-210-45-1 states that a statement of financial position should focus on the not-for-profit entity (NFP) as a whole and should report all of the following amounts:

- Total assets
- Total liabilities
- Total net assets
- Permanently restricted net assets
- Temporarily restricted net assets
- Unrestricted net assets

1.02

The examples in this section, which are in a multicolumnar format, show the columns labeled with either names of entities (combining statements) or funds, but not classes, of net assets. Although it is not prohibited to have the columns represent the net asset classes, in most cases, specific assets and liabilities are neither unrestricted nor restricted, and any attempt to categorize them as such may result in arbitrary classifications without an objective basis. FASB ASC 958-210-45-6 states that assets may be restricted by donors. However, restrictions generally apply to net assets, not to specific assets. Assets need not be disaggregated on the basis of the presence of donor-imposed restrictions on their use; for example, cash available for unrestricted current use need not be reported separately from cash received with donor-imposed restrictions that is also available for current use. However, cash or other assets received with a donor-imposed restriction that limits their use to long-term purposes shall not be classified with cash or other assets that are unrestricted and available for current use.

1.03

Columnar formats all show the classes of net assets separately in the "Net Assets" section of the statement.

1.04

Accounting literature does not specify whether certain required information should be presented on the face of the statement of financial position or in the notes to the financial statements. One example is asset valuation allowances. Some entities include them as part of the asset caption on the balance sheet; others disclose them in a note. Allowances for uncollectible receivables are more often included in the asset caption. Accumulated depreciation is more often disclosed in a note, together with details of the components of fixed assets Other examples include information about the nature and amount of restrictions on net assets and the composition of the investment portfolio. Some entities present this information on the face of the balance sheet, whereas other entities include this information in the notes.

COLUMNAR FORMATS

1.05

The following is an example of a single-column statement for a large institution. This statement includes a liability representing amounts held by the university under agency agreements with other entities such as on-campus student organizations. The related assets are included in their appropriate categories—cash and others. In a statement of financial position disaggregated by fund or net asset class, these assets and related liabilities would be included in the unrestricted section.

1.06

Because these assets and the transactions affecting them do not belong to the reporting university, no amounts related thereto would be included in the university's statement of activities. However, a statement of cash flows prepared using the direct method would include related cash receipts and disbursements as operating cash flows (per AICPA Audit and Accounting Guide *Not-for-Profit Entities* [the guide], paragraph 3.24). (Also see the FGH University example in section 3 of this publication.) A statement of cash flows prepared using the indirect method would not show any caption for these because they will always net out against the change in the balance sheet liability.

1.07

FGH University
Statement of Financial Position
at July 31, 20X2 and 20X1

	20X2	*20X1*
Assets:		
Cash and cash equivalents	$ 316,388	$ 159,041
Accounts receivable, net of allowances of $7,439 and $4,236	102,339	91,827
Inventories and prepaid expenses	53,856	48,907
Contributions receivable, net of allowances of $18,600 and $18,000	114,618	135,407
Student loans receivable, net of allowances of $5,230 and $5,190	65,267	61,555
Other loans receivable (principally faculty mortgages)	73,067	68,805
Investments	5,031,550	4,338,480
Net assets of [*Affiliated Entity*]	319,471	280,057
Plant facilities, net of accumulated depreciation	1,124,259	1,058,354
Collections of works of art (Note X)	—	—
Total assets	$7,200,815	$6,242,433
Liabilities and Net Assets:		
Liabilities:		
Accounts payable and accrued expenses	$ 335,416	$ 270,385
Collateral for security lending agreements	125,423	91,231
Income beneficiary share of living trust investments	170,029	143,940
Notes and bonds payable	688,149	624,361
Agency funds held for others	41,322	36,811
U.S. government refundable loan funds	42,768	40,668
Commitments and contingencies	—	—
Total liabilities	$1,403,107	$1,207,396
Net Assets:		
Unrestricted:		
Designated for operations	722,129	611,356
Investment in plant facilities	660,481	646,798
Endowment gains and funds functioning as endowment	2,449,836	2,010,137
[*Affiliated Entity*]	319,471	280,057
Total unrestricted	4,151,917	3,548,348
Temporarily restricted	306,550	259,047
Permanently restricted	1,339,241	1,227,642
Total net assets	5,797,708	5,035,037
Total liabilities and net assets	$7,200,815	$6,242,433

1.08

FGH University has presented in the statement of financial position details regarding the components of the unrestricted net assets. This is not required to be disclosed, but total unrestricted net assets is a required disclosure. Alternatively, the components of unrestricted net assets could be presented in the notes to the financial statements.

1.09

FGH University has presented a line on the statement of financial position for commitments and contingencies. Because it is not required, some entities choose not to present this line item.

1.10

The following example illustrates the combination of financial statements for two affiliated entities.

1.11

The BCD Foundation
Combining Balance Sheet
December 31, 20X2

	The BCD Foundation	*The* [Affiliated] *Foundation*	*Total*
Assets:			
Cash and cash equivalents	$ 4,364,031		$ 4,364,031
Program-related loans receivable	371,729		371,729
Investments	115,747,252	$2,873,174	118,620,426
Contributions receivable from charitable remainder trusts	5,734,337		5,734,337
Beneficial interest in:			
Unitrust agreement	1,409,932		1,409,932
Perpetual trusts	2,405,695		2,405,695
Other assets	164,661		164,661
Total assets	$130,197,637	$2,873,174	$133,070,811
Liabilities and Net Assets:			
Liabilities:			
Accounts payable and accrued expenses	$ 28,385		$ 28,385
Grants payable	540,222	$ 270,711	810,933
Liability under unitrust agreement	715,482		715,482
Commitment	—		—
Total liabilities	1,284,089	270,711	1,554,800
Net Assets:			
Unrestricted:			
Donor advised	48,618,267		48,618,267
Field-of-interest	14,348,619	2,602,463	16,951,082
Designated	5,124,057		5,124,057
Discretionary	51,988,122		51,988,122
Total unrestricted	120,079,065	2,602,463	122,681,528
Temporarily restricted		1,754,215	1,754,215
Permanently restricted		7,080,268	7,080,268
Total net assets	128,913,548	2,602,463	131,516,011
Total liabilities and net assets	$130,197,637	$2,873,174	$133,070,811

1.12

The following is an example of a statement presented in the “assets, less liabilities, equals net assets” format. This is especially appropriate when liabilities are relatively small compared to assets, but can be used by any entity.

1.13

LMN Museum
Statement of Financial Position
June 30, 20X2

Assets	
Cash	$ 480,241
Grants and contributions receivable	86,488
Prepaid expenses	1,761,606
Inventories	856,817
Notes receivable	28,515
Long-term investments:	
Pooled investments	107,754,307
Beneficial interests in trusts and insurance	2,789,580
Real estate and oil leases	1,116,665
Fixed assets:	
Grounds and buildings, net	11,247,907
Equipment and vehicles, net	2,268,665
Library, art, and garden collections carried at no value (Note X)	—
Total assets	128,624,501
Less: liabilities	
Accounts payable and accrued expenses	1,318,882
Obligations under unitrust and annuity agreements	1,326,104
Notes payable	35,340
Commitments and contingencies	—
Total liabilities	2,680,326
Net assets	
Unrestricted—	
Available for operations	675,165
Designated for special projects	376,650
Invested in fixed assets	13,173,739
Board-designated endowment	43,495,253
Total unrestricted	57,720,807
Temporarily restricted—	
Specific purpose funds	3,074,154
Beneficial interests in trusts and insurance	1,146,281
Term endowment	20,438,253
Total temporarily restricted	24,658,688
Permanently restricted—	
Beneficial interests in trust and insurance	400,000
Endowment	43,164,680
Total permanently restricted	43,564,680
Total net assets	$125,944,175

1.14

The information regarding the components of unrestricted, temporarily restricted, and permanently restricted net assets could be presented in the notes to the financial statements.

1.15

The following example uses the columnar format by fund. Note that the net assets section includes amounts in the appropriate columns. For some entities, this format may better track the way finances are managed internally. This financial statement is also illustrated in the next example using a different presentation.

1.16

AIC Association
Balance Sheet
December 31, 20X2 and 20X1

	20X2			*20X1*		
	Operating Endowment	*Endowment Fund*	*Total*	*Operating Fund*	*Endowment Fund*	*Total*
Assets:						
Cash	$ 2,732	$ 685	$ 3,417	$ 2,284	$ 558	$ 2,842
Investments	18,312	12,246	30,558	16,109	10,869	26,978
Accounts receivable	6,315		6,315	5,205		5,205
Inventories	3,677		3,677	2,336		2,336
Prepaid expenses	2,320		2,320	1,762		1,762
Property and equipment	4,450		4,450	4,193		4,193
Total assets	$37,806	$12,931	$50,737	$31,889	$11,427	$43,316
Liabilities and net assets:						
Liabilities:						
Accounts payable	$ 6,792		$ 6,792	5,362		5,362
Accrued expenses	755		755	560		560
Deferred member dues	5,045		5,045	7,308		7,308
Unearned subscriptions	6,392		6,392	3,625		3,625
Total liabilities	18,984		18,984	16,855		16,855
Net assets:						
Unrestricted	15,233	707	17,645	13,253	$ 491	15,256
Temporarily restricted	3,589	1,705	3,589	1,781	1,512	1,781
Permanently restricted	—	10,519	10,519	—	9,424	9,424
Total net assets	18,822	12,931	31,753	15,034	11,427	26,461
Total liabilities and net assets	$37,806	$12,931	$50,737	$31,889	$11,427	$43,316

LAYERED FORMATS

1.17

When numerous funds are presented separately, it makes it easier to include complete comparative information by fund or class in a more compact arrangement than does the columnar format. This is also referred to as a *pancake* format. Note that this is the same financial statement as the previous example.

1.18

AIC Association
Balance Sheet
December 31, 20X2 and 20X1

	20X2	*20X1*		*20X2*	*20X1*
Operating Fund					
Assets:			Liabilities and net assets:		
Cash	$ 2,732	$ 2,284	Accounts payable	$ 6,792	$ 5,362
Investments	18,312	16,109	Accrued expenses	755	560
Accounts receivable	6,315	5,205	Deferred member dues	5,045	7,308
Inventories	3,677	2,336	Unearned subscriptions	6,392	3,625
Prepaid expenses	2,320	1,762	Total liabilities	18,984	16,855
Property and equipment	4,450	4,193	Net assets:		
			Unrestricted	15,233	13,253
			Temporarily restricted	3,589	1,781
			Total net assets	18,822	15,034
Total assets	$37,806	$31,889	Total liabilities and net assets	$37,806	$31,889
Endowment Fund					
Assets:			Net assets:		
Cash	$ 685	$ 558	Unrestricted	$ 2,412	$ 2,003
Investments	12,246	10,869	Permanently restricted	10,519	9,424
Total assets	$12,931	$11,427	Total net assets	$12,931	$11,427
Total All Funds					
			Total liabilities	$18,984	$16,855
			Net assets		
			Unrestricted	17,645	15,256
			Temporarily restricted	3,589	1,781
			Permanently restricted	10,519	9,424
			Total net assets	31,753	26,461
Total assets	$50,737	$43,316	Total liabilities and net assets	$50,737	$43,316

1.19

The following statement illustrates a classified balance sheet format in which the traditional method of showing liquidity (presenting current assets and liabilities separately with subtotals for each) is used. Other methods of showing liquidity are discussed in FASB ASC 958-210-45-8 and are illustrated in the other examples in this section and in some of the footnotes in section 6. Note that breaking out the building fund (calculated as net fixed assets less the mortgage) from total net assets reveals that this club actually has a deficit in its general fund, even though it has a working capital surplus.

1.20

LKJ Club
Balance Sheet
June 30, 20X2 and 20X1

Assets	*20X2*	*20X1*	*Liabilities and Net Assets*	*20X2*	*20X1*
Current assets:			Current liabilities:		
Cash	$ 157	$ 123	Current portion of mortgage	$ 44	$ 58
Accounts receivable	475	480	Accounts payable	153	142
Inventories, at lower of cost or market	101	99	Accrued salaries, taxes, and expense	184	165
Prepaid expenses	55	48			
Total current assets	788	750	Accrued vacation	26	21
Deferred compensation investments	498	433	Unearned dues	344	342
			Total current liabilities	751	728
Land, building, and equipment:					
Land	2,063	2,063			
Building	2,491	2,305	Deferred compensation	495	419
Club house furniture and equipment	756	736	Building mortgage	307	365
Kitchen equipment	190	187	Other long-term debt	450	569
Office equipment	77	76	Total liabilities	2,003	2,081
China, linen, and silverware	15	15			
	5,592	5,382	Net assets—unrestricted:		
			General fund	(366)	(475)
			Building fund	2,835	2,661
Less: accumulated depreciation	(2,406)	(2,298)	Total net assets	2,469	2,186
	3,186	3,084			
Total assets	$ 4,472	$ 4,267	Total liabilities and net assets	$4,472	$4,267

1.21

“Pending Content” in FASB ASC 480-10-05-3 states that by issuing shares of stock, an entity generally does not incur an obligation to redeem the shares and, therefore, that entity does not incur an obligation to transfer assets or issue additional equity shares. However, some issuances of stock (for example, mandatorily redeemable preferred stock) do impose obligations.

1.22

If the club in the preceding balance sheet issues stock to its members representing equity interests in the club, which is mandatorily redeemable, the entity should disclose the potential liability to redeem the equity shares. Examples of disclosures are in section 6 of this publication.

SELECTED SECTIONS OF THE STATEMENT

1.23

The following example illustrates the net assets section of a balance sheet showing net assets both summarized by class and in detail by fund or other internal grouping. This detail can also be presented in a note; see examples in section 6. Note the 20X1 data is not a complete presentation under U.S. generally accepted accounting principles; see the guide, paragraph 3.30.

1.24

STG Entity
Statement of Financial Position [Net assets section]
June 30, 20X2, With Comparative Totals as of June 30, 20X1

	20X2	20X1
Net assets:		
Unrestricted	$ 448,339	$387,838
Temporarily restricted	397,689	387,810
Permanently restricted	192,871	176,724
Total net assets	$1,038,899	$952,372

1.25

	20X2				20X1
	Unrestricted	*Temporarily Restricted*	*Permanently Restricted*	*Total*	*Total*
Detail of net assets:					
Accumulated deficit from operations	$ (9,481)			$ (9,481)	$ (11,718)
Donor-restricted or museum-designated for future purposes	18,579	$ 37,725	$ 3,700	60,004	60,618
Funding for property, improvements, and equipment	8,979	211,393		220,372	221,351
Funding for acquisitions	275	20,318		20,593	20,735
Donor-restricted endowment and board-designated assets functioning as endowment	429,987	128,253	189,171	747,411	661,386
Total net assets	$448,339	$397,689	$192,871	$1,038,899	$952,372

1.26

Many clubs issue capital stock to their members; therefore, the format of the equity section of their balance sheets often looks similar to that of a commercial business.

	20X2	*20X1*
Members' equity:		
Capital stock—$500 par value; 65 and 65 shares authorized and 65 and 64 issued at December 31, 20X2 and 20X1, respectively	$ 32,500	$ 32,000
Retained earnings	738,667	744,223
Total members' equity (unrestricted)	$771,167	$776,223

1.27

Some clubs consider members' initiation fees as equivalent to paid-in capital and report it separately from accumulated operating results, as follows:

Members' equity:	
Initiation fees	$180,000
Retained (deficit)	(11,000)
Total members' equity (unrestricted)	$169,000

SECTION 2: STATEMENTS OF ACTIVITIES, INCLUDING CHANGES IN NET ASSETS

2.01

Financial Accounting Standards Board (FASB) *Accounting Standards Codification* (ASC) 958-225 is not specific about permissible methods of presenting the information required in a statement of activity. It requires presentation in a statement of activities of the following, by period, for the entity as a whole:

- Change in net assets in total and by class.
- Revenues, expenses, gains, losses, and reclassifications aggregated into reasonably homogeneous groups. Note that reclassifications should always net to zero.
- Revenues and expenses presented gross (except investment expenses, such as management or advisory fees, which may be netted if the amount is disclosed).

2.02

In addition, FASB ASC 958-720-45-2 states that a statement of activities or notes to financial statements should provide information about expenses reported by their functional classification. See a further comment about this in section 7, under "Expenses."

2.03

Although a formal reconciliation of net assets from the beginning of the year to the end of the year is not technically required by professional literature, it is often presented either as part of the statement of activities or as a separate statement.

2.04

FASB ASC 958-225-45 does not define a measure of operations, but permits entities wide latitude in choosing how to present the sequence of revenues, expenses, gains, and losses, as long as any measure of operations is in a statement that includes at least the total change in unrestricted net assets. See also the sample notes on this subject in section 7 of this publication. Additionally, a note must describe the nature of the reported measure of operations or the items excluded from operations if the entity's use of the term *operations* is unclear from the face of the statement.

2.05

Accordingly, practice is very diverse for this statement, especially regarding the sequence of items. The following examples reflect this diversity by illustrating the presentations:

- One column versus four columns
  - — Presentation of the unrestricted class in more than one column
- Presentation of combining statements for affiliated entities
- Presentation of a measure of operations
- Presentation of expenses above revenue
- Regarding investment return:
  - — All investment return in operations
  - — All investment return outside of operations
  - — Interest, dividend, and other investment income in operations, capital gains outside operations
  - — Interest, dividends, and realized gains in operations, unrealized gains outside operations
  - — Endowment earnings up to a set spending rate in operations, all other components of return outside operations
- Regarding private foundations and other grant-making entities:
  - — Presentation of grants awarded as a deduction from investment income versus with other expenses
  - — Presentation of federal excise tax as a deduction from investment income versus with other expenses

COLUMNAR ARRANGEMENTS

2.06

The following example illustrates a multicolumn format by class, with an intermediate measure of operations. Other matters to note are (1) auxiliary expenses are netted against revenue, but gross amounts are presented; (2) this format makes it clear that reclassifications do not change total net assets; and (3) collection activity is reported separately (required if collections are not capitalized).

2.07

FGH Museum
Statement of Activities
For the Year Ended December 31, 20X2

		Unrestricted	*Temporarily Restricted*	*Permanently Restricted*	*Total*
Operating support and revenues:					
Contributions		$ 4,084,332	$21,158,039		$25,242,371
Exhibition and project support		5,318,618			5,318,618
Admissions		5,144,142			5,144,142
Auxiliary revenue	$ 8,080,174				
Auxiliary expenses, including cost of sales	(8,851,832)	(771,658)			(771,658)
Investment income		425,267	5,601		430,868
Membership income		980,235			980,235
In-kind contributions		518,587			518,587
Other		920,005			920,005
		16,619,528	21,163,640		37,783,168
Net assets released from restrictions:					
General support		1,698,329	(1,698,329)		
Exhibition and projects		409,531	(409,531)		
Total operating support and revenues		18,727,388	19,055,780		37,783,168
Operating expenses:					
Museum programs:					
Exhibition and projects		16,523,269			16,523,269
Curatorial and collection maintenance		5,473,938			5,473,938
Public service		1,842,632			1,842,632
Education		768,067			768,067
Total program expenses		24,607,906			24,607,906
Supporting services:					
Management and general		3,781,372			3,781,372
Fund-raising		1,550,276			1,550,276
Membership		861,593			861,593
Total supporting services		6,193,241			6,193,241
Total operating expenses		30,801,147			30,801,147
Excess (deficiency) of operating support and revenues over operating expenses		(12,073,759)	19,055,780		6,982,021
Nonoperating Support and Revenues, Expenses, Gains, and Losses:					
Contributions for endowment and funds functioning as endowment		278,595		$ 2,932,194	3,210,789
Contributions for capital construction		225,206	2,062,363		2,287,569
Contributions for art acquisition		356,250	22,500		378,750
Net realized gain on sale of investments		1,267,033	24,670	101,708	1,393,411
Net unrealized appreciation on investments		685,001	13,611	56,887	755,499
Change in net assets before other changes		(9,261,674)	21,178,924	3,090,789	15,008,039
Changes in Net Assets Related to Collection Items Not Capitalized:					
Proceeds from sale of collection items		325,000			325,000
Collection items purchased		(452,946)			(452,946)
Change in net assets		(9,389,620)	21,178,924	3,090,789	14,880,093
Net assets—beginning of year		37,245,633	12,700,745	15,885,300	65,831,678
Net assets—end of year		$ 27,856,013	$33,879,669	$18,976,089	$80,711,771

2.08

The following statement of activities includes a description of the purpose of each expense category as part of the caption and percentages that major categories bear to total revenue or to program and supporting expenses.

2.09

This statement reports the cost of direct donor benefits as a supporting service in the functional expense section. Alternative presentations may show the cost of direct donor benefits as a separate (deduction) line immediately following special events revenue. This example also shows a change in accounting.

2.10

The [Disease] *Association*
Statement of Activities—For the Year Ended June 30, 20X2

	Unrestricted	*Permanently Restricted*	*Temporarily Restricted*	*Total*	*Percent*
Revenues, gains, and other support:					
Support from the public:					
Contributions	$104,953	$ 19,126	$ 2,120	$126,199	25
Legacies and bequests	64,445	48,731	1,314	114,490	22
Special events	102,535	3,649	—	106,184	21
Other special fund-raising activities	16,925	458	—	17,383	3
Merchandise and other in-kind contributions, at fair value	16,279	339	—	16,618	3
Contributed services, at fair value	—	4,264	—	4,264	1
Contributions raised indirectly from federated fund-raising entities	30,480	11,077	—	41,557	9
Total support from the public	335,617	87,644	3,434	426,695	84
Grants from government agencies	—	4,103	—	4,103	1
Investment income:					
Interest and dividends, net	27,328	1,276	115	28,719	6
Realized investment gains, net	330	445	1,008	1,783	—
Unrealized investment gains (losses), net	(3,472)	62	225	(3,185)	(1)
Total investment income, net	24,186	1,783	1,348	27,317	5
Income from exchange transactions	51,777	—	—	51,777	10
Other gains	672	68	—	740	—
Total revenues, gains, and other support	412,252	93,598	4,782	510,632	100
Net assets released from restrictions:					
Satisfaction of activity restrictions	41,439	(41,439)	—	—	
Satisfaction of equipment acquisition restrictions	2,382	(2,382)	—	—	
Expiration of explicit and implicit time restrictions	21,011	(21,011)	—	—	
Total net assets released from restrictions	64,832	(64,832)	—	—	
Total revenues, gains, other support, and net assets released from restrictions	$477,084	$ 28,766	$ 4,782	$510,632	100

(continued)

The [Disease] *Association*
Statement of Activities—For the Year Ended June 30, 20X2

	Unrestricted	*Permanently Restricted*	*Temporarily Restricted*	*Total*	*Percent*
Expenses:					
Program services:					
Research—financial support provided to academic institutions and scientists and conduct of epidemiological studies seeking new knowledge for the causes, cures, and prevention of [*disease*]	$ 93,384	$ —	$ —	$ 93,384	22
Prevention—programs that provide the public and health professionals with information and education to prevent [*disease*] occurrence or to reduce risk of developing [*disease*]	81,698	—	—	81,698	19
Detection/treatment—programs that are directed at finding [*disease*] before it is clinically apparent and that provide information and education about [*disease*] treatments, cure, recurrence, symptom management, and pain control	52,628	—	—	52,628	13
Patient services—programs to assist [*disease*] patients and their families and ease the burden of [*disease*] for them	69,066	—	—	69,066	17
Total program services	296,776	—	—	296,776	71
Supporting services:					
Management and general—direction of the overall affairs of the [*charity*] through executive, financial, and administrative services	28,109	—	—	28,109	7
Direct donor benefits—cost of benefits provided to donors at special events	16,502			16,502	
Fund-raising—programs to secure charitable financial support for programs and supporting services	69,836	—	—	69,836	21
Unallocated payments to affiliated entities	4,663	—	—	4,663	1
Total supporting services	119,110	—	—	119,110	29
Total program and supporting services expenses	415,886	—	—	415,886	100
Expenses related to exchange transactions	56,271	—	—	56,271	
Reorganization expenses	2,660	—	—	2,660	
Total expenses	474,817	—	—	474,817	
Change in net assets before cumulative effect of accounting change	2,267	28,766	4,782	35,815	
Cumulative effect of accounting change	4,908	18,576	12,679	36,163	
Change in net assets	7,175	47,342	17,461	71,978	
Net assets, beginning of year	446,880	84,719	27,781	559,380	
Net assets, end of year	$454,055	$132,061	$45,242	$631,358	

2.11

The following illustrates a columnar format, with the total column to the left of the captions. Note that some of the temporarily restricted net assets released from restrictions go into the operating portion of the unrestricted class and some into the "other" (nonoperating) portion.

2.12

MNO University
Statement of Activities for the Year Ended June 30, 20X2

Total		Unrestricted	Restricted Temporarily	Permanently
	Revenues and other support:			
$307,849	Tuition and fees, net of discounts	$ 307,849		
35,783	State appropriations	35,783		
304,108	Sponsored programs	304,108		
68,527	Contributions	15,703	$ 52,824	
86,244	Investment income	53,084	33,160	
968,446	Hospitals and physician practices	968,446		
75,180	Sales and services of auxiliary enterprises	75,180		
68,746	Other educational activities	68,746		
20,018	Independent operations	20,018		
	Net assets released from restrictions	85,047	(85,047)	
1,934,901		1,933,964	937	
	Expenses:			
	Program:			
406,754	Instruction	406,754		
238,247	Research	238,247		
936,449	Hospitals and physician practices	936,449		
84,204	Auxiliary enterprises	84,204		
65,460	Other educational activities	65,460		
21,808	Student services	21,808		
19,508	Independent operations	19,508		
	Support:			
37,318	Academic support	37,318		
74,244	Management and general	74,244		
6,223	Fund-raising	6,223		
1,890,215		1,890,215		
44,686	Increase in net assets before nonoperating revenues, net gains, reclassifications, and other	43,749	937	
	Nonoperating revenues, net gains, reclassifications, and other:			
197,185	Gain on investments, net	56,614	125,292	$ 15,279
57,130	Investment income	48,089	8,555	486
57,862	Contributions	29,122	8,200	20,540
1,529	Other, net	(59,537)	38,980	22,086
(107,502)	Postretirement benefit transition obligation		(107,502)	
	Net assets released from restrictions	13,288	(13,288)	
250,890	Increase in net assets	131,325	61,174	58,391
3,243,001	Net assets, beginning of year	2,078,814	464,394	699,793
$3,493,891	Net assets, end of year	$2,210,139	$525,568	$758,184

2.13

The following example illustrates a single-column format for a large, complex institution. This format makes it easier than does the multicolumn format to present comparative data. Again, note that some of the temporarily restricted net assets released from restrictions go into the operating portion of the unrestricted class and some into the "other" (nonoperating) portion.

2.14

Note that expenses are presented by natural classification. Thus, expenses by function will be presented in the notes.

2.15

HJL University
Statement of Activities
Years Ended August 31, 20X2 and 20X1

Unrestricted Net Assets Activity	*20X2*	*20X1*
Revenues:		
Student income:		
Undergraduate programs	$ 130,556	$ 123,916
Graduate programs	128,250	121,876
Room and board	50,022	47,923
Total student income	308,828	293,715
Sponsored research support (primarily federal):		
Direct costs—University	295,803	274,889
Direct costs—[*Affiliated Research Center*]	188,492	175,780
Indirect costs	93,428	87,233
Total sponsored research support	577,723	537,902
Expendable gifts in support of operations	93,169	82,634
Investment income:		
Endowment income distributed for operations	120,400	103,385
Endowment gains distributed for operations	40,940	51,596
Other investment income	59,428	57,596
Total investment income	220,768	212,577
Other income:		
Special program fees	106,480	90,923
Auxiliary activities (excluding room and board)	94,541	95,395
Other	14,175	17,869
Total other income	215,196	204,187
Total revenues	1,415,684	1,331,015
Net assets released from restrictions	17,964	11,546
Expenses:		
Salaries and benefits	491,576	475,908
Student financial aid	65,139	65,537
Depreciation	92,320	77,428
[*Affiliated Research Center*]	188,492	175,780
Auxiliary activities (including room and board)	150,600	157,420
Institutional support	227,333	211,520
Other operating expenses	135,097	118,604
Total expenses	1,350,557	1,282,197
Excess of revenues and net assets released over expenses	83,091	60,364
Other Changes in Unrestricted Net Assets:		
Expendable gifts invested in the endowment	5,112	1,930
Reinvested endowment gains	414,962	223,967
Other investment income invested in the endowment	12,084	16,662
Net increase in [*Affiliated Entity*] net assets	28,197	3,349
Capital and other gifts released from restrictions	41,250	39,922
Pension and other postemployment benefit related changes other than net periodic benefit expense	11,217	5,317
Other additions	7,656	11,330
Net change in unrestricted net assets	$ 603,569	$ 362,841

(continued)

HJL University
Statement of Activities
Years Ended August 31, 20X2 and 20X1

	20X2	*20X1*
Net change in unrestricted net assets	$ 603,569	$ 362,841
Temporarily Restricted Net Assets Activity		
Gifts, and promises to give (pledges)	104,680	122,651
Temporarily restricted return from endowment investments	3,006	1,629
Living trust investment income and actuarial adjustment	(6,331)	4,599
Other investment income	5,362	1,668
Net assets released from restrictions	(17,964)	(11,546)
Reclassification of capital and other gifts released from restrictions	(41,250)	(39,922)
Net change in temporarily restricted net assets	47,503	79,079
Permanently Restricted Net Assets Activity		
Gifts and pledges	62,838	54,499
Permanently restricted return from endowment investments	24,350	12,293
Living trust investment income and actuarial adjustment	21,958	13,842
Other investment income	2,453	601
Net change in permanently restricted net assets	111,599	81,235
Net change in total net assets	762,671	523,155
Total net assets, beginning of year	5,035,037	4,511,882
Total net assets, end of year	$5,797,708	$5,035,037

2.16

The following example illustrates use of a multicolumnar statement for the unrestricted net asset class with a single column for the restricted net asset classes. The subdivision emphasizes the extent to which the surplus from program 2 is used to subsidize other functions. Although the line items in the expense section of this statement are natural expense categories, the presence of the columns for the functions makes this statement also serve the purpose of the matrix of functional expenses required for voluntary health and welfare entities. This format works best for entities with a small number of programs or funds; otherwise, the focus on the entity as a whole can be lost.

2.17

RST Charity
Statement of Activities
Year Ended December 31, 20X2

	Program Services		*Management*	*Fund-*	*20X2*
	Program 1	*Program 2*	*and General*	*Raising*	*Total*
Changes in unrestricted net assets:					
Revenues and other support:					
Registration fees	$ —	$10,504,099	$ —	$ —	$10,504,099
Government contracts:					
Activity 1	792,500	—	—	—	792,500
Activity 2	1,546,000	—	—	—	1,546,000
Contributions	—	115,154	—	3,804	118,958
Interest income	—	101,295	—	—	101,295
Donated services	—	165,421	—	—	165,421
	2,338,500	10,885,969	—	3,804	13,228,273
Net assets released from restrictions:					
Satisfaction of program restrictions	—	60,485	—	—	60,485
Total unrestricted revenues	2,338,500	10,946,454	—	3,804	13,288,758
Expenses:					
Salaries	3,600,651	906,809	701,160	25,347	5,233,967
Employment benefits and payroll taxes	969,465	244,624	188,955	9,885	1,412,929
Temporary help	—	26,084	22,489	—	48,573
Meetings and travel	607,718	764,283	52,987	1,762	1,426,750
Subcontractors	514,840	—	—		514,840
Professional education programs and projects	14,459	75,050	58,018	—	147,527
Other purchased service	373,398	690,375	333,888	—	1,397,661
Telephone, telecommunications, and utilities	346,336	10,158	7,853	—	364,347
Publications	82,043	—	—	—	82,043
Equipment leases	32,047	573	443	—	33,063
Repairs and maintenance	66,513	90,591	70,032	—	227,136
Rent	434,753	18,051	13,954	—	466,758
Postage	92,145	9,122	7,052	—	108,319
Depreciation and amortization	428,479	18,137	14,020	—	460,636
Donated services	—	165,421	—	—	165,421
Other	182,852	105,164	77,408	6,342	371,766
Total expenses	7,745,699	3,124,442	1,548,259	43,336	12,461,736
(Decrease) increase in unrestricted net assets	$(5,407,199)	$ 7,822,012	$(1,548,259)	$(39,532)	827,022
Change in temporarily restricted net assets:					
Contributions					112,196
Net assets released from restrictions					(60,485)
Increase in temporarily restricted net assets					51,711
Increase in net assets					878,733
Net assets, beginning of year					3,113,639
Net assets, end of year					$ 3,992,372

2.18

The following illustrates a multicolumnar statement with unrestricted net asset class subdivided into the traditional funds. This format also works best for entities with a small number of programs or funds; otherwise, the focus on the entity as a whole can be lost.

2.19

KLT Entity
Statement of Activity [Partial]
For the Year Ended September 30, 20X2

	Unrestricted Class				Restricted Class		
	Operating Fund	*Board Designated*	*Fixed Assets*	*Total*	*Temporary*	*Permanent*	*20X2 Total*
		[Not shown here]					
Revenues (and reclassifications)							
Expenses:							
Program services:							
Program development	$ 658	$ 46	$ 4	$ 708			$ 708
State and interstate services	148			148			148
Services to families	1,500	109		1,609			1,609
Special services	1,384		21	1,405			1,405
Residences for homeless men and women and senior citizens	26,026	387	366	26,779			26,779
Camping services for senior citizens, youth, and families	1,373	464	285	2,122			2,122
Community centers	8,761	794	1,423	10,978			10,978
Service extension services	1,292	34	80	1,406			1,406
Day care centers	5,873	50	6	5,929			5,929
Services to children	21,735	116	145	21,996			21,996
Total program services	68,750	2,000	2,330	73,080			73,080
Supporting services:							
Management and general	5,939	209	253	6,401			6,401
Fund-raising	2,154	277	11	2,442			2,442
Total supporting services	8,093	486	264	8,843			8,843
Total expenses	76,843	2,486	2,594	81,923			81,923
Designations by Governing Board:							
Transfer of net assets for program services	4,834	(4,834)	—	—			—
Transfer of net assets for capital purposes	—	(3,607)	3,607	—			—
Transfer to reserves	(1,813)	1,813	—	—			—
	3,021	(6,628)	3,607	—			—
Increase in net assets	$ 269	$ 2,377	$ 763	$ 3,409	$6,926	$331	$10,666

2.20

The following statements illustrate a single-column presentation in the multiple statement of activity format shown as Format C in paragraphs 15–17 in FASB ASC 958-205-55. The following statement includes only the unrestricted class and presents the details for the other two classes, plus the change in unrestricted net assets so that the total change in net assets is presented.

2.21

The GHI Foundation
Statement of Unrestricted Income and Expenses
Year Ended December 31, 20X2 and 20X1

	20X2	*20X1*
Income		
Dividends	$ 2,854,719	$ 2,771,309
Interest	4,016,332	3,906,590
Rent	1,603,694	1,461,627
Distribution from real estate funds	4,236,615	4,371,777
Net realized gains on investments	5,582,474	20,470,422
Increase in unrealized gains on investments	3,138,308	13,789,568
Net assets released from restriction	826,235	522,224
	22,258,377	47,293,517
Expenses		
Grant administration expense	2,160,969	2,132,248
Investment expense	2,858,146	2,782,593
Grants appropriated	16,859,156	11,342,718
Federal excise tax (refund)	(270,304)	(16,409)
Total expenses	21,607,967	16,241,150
Increase in unrestricted net assets	650,410	31,052,367
Unrestricted net assets, beginning of year	322,601,074	291,548,707
Unrestricted net assets, end of year	$323,251,484	$322,601,074

2.22

The GHI Foundation
Statement of Changes in Net Assets
Year Ended December 31, 20X2 and 20X1

	20X2	*20X1*
Temporarily restricted:		
Contributions	$ 744,356	$ 609,002
Investment income	102,662	98,677
Change in value of investments	34,660	150,775
Net assets released from restriction	(826,235)	(522,224)
Increase in temporarily restricted net assets	55,443	336,230
Permanently restricted:		
Contributions	500,000	—
Change in value of investments	15,600	27,565
Increase in permanently restricted net assets	515,600	27,565
Increase in unrestricted net assets	650,410	31,082,367
Increase in net assets	1,221,453	31,446,162
Net assets, beginning of year	327,250,111	295,803,949
Net assets, end of year	$328,471,564	$327,250,111

2.23

The following statement uses the single-column format with three net asset classes. It illustrates a reclassification out of permanently restricted net assets. Besides a correction of an error, the only event which would normally give rise to this reclassification would be the donor releasing what had originally been a permanent restriction on a gift. Note also that a significant amount of investment income is allocated to the permanently restricted net assets, signifying that the donor intended for the corpus to grow.

2.24

JKL Foundation
Consolidated Statements of Activities
Years Ended June 30, 20X2 and 20X1

	20X2	*20X1*
Changes in Unrestricted Net Assets:		
Revenues and gains:		
Contributions	$ 29,241,643	$ 37,640,157
Investment income, net of fees	20,413,435	17,124,903
Unrealized and realized net gains on investments	15,057,219	13,479,342
Total revenues and gains	64,712,297	68,244,402
Expenses:		
Grants	32,011,140	21,162,203
Program support	1,709,432	1,414,688
Operating expenses:		
Grantmaking	1,430,404	1,613,065
Philanthropic services	102,028	121,027
Development and donor relations	1,584,094	1,303,467
Fund management	61,119	42,318
Finance, governance, and administration	559,282	494,470
Total operating expenses	3,736,927	3,574,347
Total expenses	37,457,499	26,151,238
Net increase in unrestricted net assets before reclassification	27,254,798	42,093,164
Reclassification of temporarily restricted net assets		33,908,623
Increase in unrestricted net assets	27,254,798	76,001,787
Changes in Temporarily Restricted Net Assets:		
Reclassification of permanently restricted net assets	970,722	
Reclassification of temporarily restricted net assets		(33,908,623)
Change in temporarily restricted net assets	970,722	(33,908,623)
Changes in Permanently Restricted Net Assets:		
Contributions to permanently restricted funds	7,016,911	1,753,431
Unrealized and realized net gains on investments	34,632,334	41,140,244
Reclassification of permanently restricted net assets	(970,722)	
Change in permanently restricted net assets	40,678,523	42,893,675
Increase in net assets	68,904,043	84,986,839
Net assets at beginning of year	502,927,928	417,941,089
Net assets at end of year	$571,831,971	$502,927,928

2.25

The following multicolumnar format with the classes subdivided uses a less common sequence in the statement of activity.

2.26

Even before the issuance of FASB guidance on financial statements of not-for-profit entities, it was common among performing arts entities (for example, opera, symphony, ballet, and so on) to present their statements of activity in the sequential format as follows, which includes in the first revenue section mainly earned income, and presents all contributions below the subtotal "loss from operations." This has the effect of emphasizing the extent to which operations are subsidized by contributed income. (Some years ago, an orchestra that had calculated that box office receipts covered only 47 percent of its costs of putting on concerts, produced for fund-raising purposes a picture showing 47 percent of its musicians in concert dress, with music stands and instruments, set up in their usual positions on stage—leaving just over one-half of the stage empty. The caption under the picture read, "This is the portion of the concert that your ticket price pays for. Please contribute. . . . ")

2.27

Note the very last line, "Total increases in unrestricted net assets." This complies with the requirement in FASB ASC 958-225-45-1 to present the change in net assets for each class separately, as well as in total. This statement would not comply with U.S. generally accepted accounting principles (GAAP) if it were not for the final line item, "Total increases . . . " This format is suitable for any entity that wishes to use it.

2.28

Sample Performing Arts Entity
Statement of Activity
Year Ended July 31, 20X2

	Unrestricted				
	Operating Fund	*Fixed Asset Fund*	*Temporarily Restricted*	*Permanently Restricted*	*Total*
Operating revenues					
Opera activities					
Box office and tour	$ 60,454				$ 60,454
Media and other revenues	10,362				10,362
Ballet presentations	6,079				6,079
Interest and dividends	4,977				4,977
Net realized endowment gains applied toward authorized spending rate	3,026				3,026
Other income	1,368				1,368
Total operating revenues	86,266				86,266
Operating expenses					
Program expenses					
Opera activities					
Performances	107,180				107,180
New productions	7,393				7,393
Other expenses	1,673				1,673
Ballet presentations	6,220				6,220
	122,466				122,466
Supporting services					
Opera house	9,656	$ 1,063			10,719
General management	6,952	262			7,214
	16,608	1,325			17,933
Total operating expenses	139,074	1,325			140,399
Loss from operations	(52,808)	(1,325)			(54,133)
Contributions and bequests	55,410	956	$13,035	$ 1,636	71,037
Net assets released from restrictions					
Satisfaction of program restrictions	5,515		(5,515)		
Expiration of time restrictions	1,968		(1,968)		
	62,893	956	5,552	1,636	71,037
Fund-raising expenses	(10,008)				(10,008)
	52,885	956	5,552	1,636	61,029
Excess (deficiency) of revenues over expenses	77	(369)	5,552	1,636	6,896
Net endowment gains in excess of authorized spending rate	2,820				2,820
Pension adjustment	2,060				2,060
Interfund transfers	356	(356)			
Change in net assets	5,313	(725)	5,552	1,636	11,776
Net assets					
Beginning of year	18,930	18,485	29,047	73,795	140,257
End of year	$ 24,243	$17,760	$34,599	$75,431	$152,033
Total increase in unrestricted net assets	$ 4,588				

2.29

This combining statement shows two movements of net assets between parts of the entity: one to reflect the transfer of assets and net assets from one organizational unit to another, and the other to reclassify some unrestricted net assets to the permanently restricted class to comply with a donor's stipulation that a permanently restricted challenge gift be met with a matching amount of unrestricted resources.

2.30

To be in conformity with FASB ASC 958-225-45, the total change in unrestricted net assets should be shown as demonstrated in the previous example.

2.31

The BCD Foundation
Combining Statement of Activity
Year Ended December 31, 20X2

	The BCD Foundation				*[Affiliated] Foundation*	
	Unrestricted	*Temporarily Restricted*	*Permanently Restricted*	*Total*	*Unrestricted*	*Total*
Revenues, Gains, and Support:						
Contributions	$21,505		$20,000	$ 41,505		$ 41,505
Investment income, net of investment fees	12,661		392	13,053	$ 510	13,563
Changes in the value of charitable trusts		$ 99	384	483		483
Other income	37			37		37
Total revenues, gains, and support	34,203	99	20,776	55,078	510	55,588
Expenses:						
Grants	3,452			3,452	1,109	4,561
Program-related expenses:						
Grant-making expenses	184			184	142	326
Special projects and other	536			536		536
Total program-related expenses	720			720	142	862
Supporting services:						
Management and general	303			303	35	338
Development	117			117		117
Total supporting services expenses	420			420	35	455
Total expenses	4,592			4,592	1,286	5,878
Change in net assets before transfer and reclassification	29,611	99	20,776	50,486	(776)	49,710
Transfer of net assets	(3,378)			(3,378)	3,378	
Reclassification to match challenge grant	(5,000)		5,000			
Change in net assets after transfer and reclassification	21,233	99	25,776	47,108	2,602	49,710
Net assets, beginning of year	73,846	1,655	6,304	81,805		81,805
Net assets, end of year	$95,079	$1,754	$32,080	$128,913	$2,602	$131,515

Total increase in unrestricted net assets $23,835.

2.32

This entity acts as a recipient entity for a significant portion of its campaign proceeds.

2.33

Community Foundation of ABC County
Statement of Activities (Campaign Section)
Year Ended June 30, 20X2

	Unrestricted	*Temporarily Restricted*	*Total*
Revenues, gains, and other support			
Gross campaign results for 20X2	$ 904,694		$ 904,694
Less donor designations	(161,019)		(161,019)
Less State Employees Federated Appeal designations	(66,925)		(66,925)
Total campaign for 20X2	676,750		676,750
Less provision for uncollectible pledges	(55,328)		(55,328)
Net campaign revenue for 20X2	621,422		621,422
Gross campaign results for 20X3	$ —	$7,100	$ 7,100

CAPTION SEQUENCES

2.34

This entity puts operating expenses above operating revenues. This has the effect of putting at the top of the statement the numbers which best reflect the entity's programmatic efforts for the year. See also the Sample Performing Arts Entity in this section.

2.35

CDE Performing Arts Center
Combined Statements of Activity [Unrestricted Class Only]
Years Ended June 30, 20X2 and 20X1

	20X2	*20X1*
Change in unrestricted net assets:		
Operations:		
Expenses:		
[*Center*] sponsored events	$ 11,685,874	$10,824,709
Hall rental operations	7,633,907	7,451,361
Real estate operations	5,488,248	5,154,199
Youth education programs	1,279,158	1,235,323
Other operations and special projects	1,520,789	1,700,351
General and administrative	2,965,226	2,768,416
	30,573,202	29,134,359
Revenues:		
Box office receipts from [*Center*] sponsored events	8,246,980	7,626,089
Hall rental operations	5,341,243	5,131,300
Real estate operations	5,415,871	5,285,799
Other income	723,877	653,507
Net assets released from restrictions	806,325	658,683
	20,534,296	19,355,378
Excess of operating expenses over operating revenues	(10,038,906)	(9,778,981)
Nonoperating revenues (expenses):		
Annual campaign and fund-raising events	7,546,596	6,620,454
The [*City*] and other government agency grants	1,151,698	1,054,516
Investment income, net	4,014,399	2,093,302
Fundraising expenses	(2,807,654)	(2,685,877)
Total nonoperating revenues, net	9,905,039	7,082,395
Decrease in unrestricted net assets	$ (133,867)	$ (2,696,586)

2.36

Because the temporarily restricted net asset class accounts for the great majority of this entity's revenues, it is placed first in the following single-column format (although this is not a required format).

2.37

TRC Foundation
Statement of Activities [Revenue Section]

	Years Ended December 31	
	20X2	*20X1*
Changes in temporarily restricted net assets:		
Contributions	$ 9,141,829	$ 9,306,386
Reclassifications—net assets released from restrictions	(8,990,430)	(9,317,707)
Change in temporarily restricted net assets	151,399	(11,321)
Changes in unrestricted net assets:		
Revenues:		
Contributions	151,084	80,768
Investment income	301,870	500,729
Field revenue—sales, rentals, and other	403,612	433,383
Other income	169,848	68,100
	1,026,414	1,082,980
Reclassifications—net assets released from restriction by satisfaction of purpose restrictions	8,990,430	9,317,707
Total unrestricted revenues and reclassifications	$10,016,844	$10,400,687

2.38

Some entities make periodic internal "assessments" against restricted and designated funds to cover the costs of administering those funds. This practice must be disclosed to donors. This disclosure, which should be made in the fundraising appeal, is not a requirement of U.S. GAAP because U.S. GAAP does not deal with matters outside the financial statements. It is referred to here for information only. One might consider it an ethical requirement. These assessments may be shown as in the following example.

2.39

Note that the assessments are initially reported in the temporarily restricted column and then reclassified to the unrestricted column. It could be argued that because donors are presumed to be aware of the fact that a portion of their gifts will be used for activities (that is, administration) other than the stated purpose of the gifts, that amount is initially unrestricted and should be reported as such. The totals would not change, but the "Assessments" line under "Reclassifications" would disappear.

2.40

BTL Entity
Statement of Activities [Revenue Section]
Year Ended December 31, 20X2

	Unrestricted	*Temporarily Restricted*
Support and revenues:		
Contributions	$261,936	$ 121,754
Affiliate support	199,728	—
Special events	33,147	—
Investment income	7,533	4,450
Rental, fees, and other	21,713	—
	524,057	126,204
Reclassifications:		
Assessments against restricted gifts	25,241	(25,241)
Net assets released from restriction by satisfaction of purpose restrictions	107,232	(107,232)
Total support, revenues, and reclassifications	$656,530	$ (6,269)

2.41

Foundations tend to use many different formats with regard to the sequence of certain items. This grant-making entity presents realized investment gains with other income and grants and excise tax with other expenses. Note that the excise tax is considered an investment expense and, thus, is partly netted against the related investment income.

2.42

PQR Foundation
Statements of Operations and Changes in Unrestricted Net Assets
For the Years Ended December 31, 20X2 and 20X1

	20X2	*20X1*
Income		
Real estate revenues	$ 61,095	$ 55,812
Marketable securities	93,188	108,616
Private entity investments	6,164	7,154
Investment management expenses	(61,050)	(63,922)
	99,397	107,660
Realized Gains		
Marketable securities	266,763	197,749
Private equity investments	26,798	5,966
Real estate investments	84,509	2,984
	378,070	206,699
Total income and realized gains	477,467	314,359
Grants and Other Expenses		
Grants approved	145,407	158,196
Program-related expenses	2,694	2,918
Administrative expenses	25,995	22,211
Excise taxes	4,921	3,848
	179,017	187,173
Results of operations before unrealized appreciation on investments	298,450	127,186
Increase (decrease) in unrealized appreciation on investments (net of federal excise tax of $2,743 in 20X2 and $261 in 20X1):		
Marketable securities	66,146	(1,556)
Private equity investments	34,309	513
Real estate investments	33,911	1,130
	134,366	87
Increase in unrestricted net assets	432,816	127,273
Net assets, beginning of year	3,164,602	3,037,329
Net assets, end of year	$3,597,418	$3,164,602

2.43

This grant-making entity presents all investment gains with other income, grants in a separate section, and excise tax with other expenses.

2.44

STU Foundation
Statements of Income, Expenses, and Changes in Unrestricted Net Assets

	Year Ended June 30	
	20X2	*20X1*
Income		
Dividends	$ 2,244,135	$ 2,230,620
Interest	2,607,105	2,409,908
Change in value of marketable securities	33,237,772	32,923,430
	38,089,012	37,563,958
Grants made	8,800,804	5,390,700
Other expenses		
Investment advisory fees	467,680	403,751
Operating expenses	372,128	342,082
Federal excise tax	114,327	209,560
Pension	117,044	91,462
Legal, accounting, and other professional fees	59,335	49,799
	1,130,514	1,096,654
Excess of income over grants and expenses	28,157,694	31,076,604
Unrestricted net assets:		
Beginning of year	159,975,781	128,899,177
End of year	$188,133,475	$159,975,781

2.45

This grant-making entity presents all investment gains below income and expenses; excise tax is deducted from other income; and grants are presented with other expenses. Note that the excise tax is considered an investment expense and, thus, is partly netted against the related investment income.

2.46

VWX Foundation
Statement of Activities
Years Ended December 31, 20X2 and 20X1

	20X2	*20X1*
Investment Income:		
Interest	$ 9,221,450	$ 8,372,881
Dividends	5,304,901	4,130,451
	14,526,351	12,503,332
Investment expenses and federal excise taxes	(1,707,248)	(1,395,277)
Net investment income	12,819,103	11,108,055
Grants and Expenses:		
Grants, net of cancellations	16,169,090	14,364,916
Grant administration and other program management expenses	2,990,057	2,676,908
General administration	868,400	672,677
	20,027,547	17,714,501
Decrease in net assets before investment gains	(7,208,444)	(6,606,446)
Net Investment Gains:		
Net realized gain on sales of investments	36,179,678	24,321,341
Increase in unrealized appreciation in fair value of investments, net of deferred tax expense of $352,318 and $211,240 in 20X2 and 20X1, respectively	17,263,589	10,350,759
Net investment gains	53,443,267	34,672,100
Increase in unrestricted net assets	46,234,823	28,065,654
Unrestricted net assets at beginning of year	351,354,562	323,288,908
Unrestricted net assets at end of year	$397,589,385	$351,354,562

2.47

The following club shows a summary of departmental profit or loss directly on the face of the statement of activity. Note that functional expense allocations would be presented in a note.

2.48

The EFG Club, Inc.
Statement of Revenues, Expenses, and Changes in Net Assets
Year Ended March 31, 20X2

	Sales and Services	*Costs and Expenses*	*Net*	
Revenues:				
Dues				$1,508
Initiation fees				535
Departmental operations:				
Rooms	$ 506	$ 175	$331	
Food	3,401	2,947	454	
Beverages	848	492	356	
Other	113	88	25	
	$4,868	$3,702		1,166
Net departmental revenues and general revenue				3,209
Other expenses:				
General				1,396
Depreciation				205
Taxes				462
Utilities				512
Repairs				199
Retirement plan				165
Total other expenses				2,939
Excess of revenues over expenses				270
Members' equity (net assets), beginning of year				5,370
Members' equity (net assets), end of year				$5,640

2.49

This research entity uses an operating measure that includes an investment return in operations as the result of a spending policy, but has an overall negative (loss) investment return. (Only the "Total" column of the statement of activities is presented.)

2.50

ABC Institute for Research
Statement of Activities
Year Ended December 31, 20X2

Operating revenues and other support	
Research grants and contracts	$ 7,013,811
Investment income allocated to operations	4,246,000
Contributed facilities and services	2,242,600
Contributions, royalties, and other revenues	959,553
Total operating revenues and other support	14,461,964
Operating expenses	
Program services	
Research	10,159,186
Greenhouse and other services	932,209
Nonresearch	194,762
Total program services	11,286,157
Supporting services	
Administration	1,494,028
Fundraising	254,750
Total operating expenses	13,034,935
Change in net assets from operations	1,427,029
Investment loss allocated to nonoperating revenues	(9,394,512)
Loss on disposal of fixed assets	(41,965)
Change in net assets	(8,009,448)
Net assets, beginning of year	79,496,166
Net assets, end of year	$71,486,718

OTHER MATTERS

2.51

This statement of activity includes budgeted amounts and variances. Note that because the expenses shown here are by natural category, and because this is a voluntary health and welfare entity, a separate statement of functional expenses (or a note showing the same information as in such a statement) would be required.

2.52

QRS Charity
Statement of Revenues, Expenses,
and Changes in Unrestricted Net Assets—Budget vs. Actual

	Year Ended March 31, 20X2		
	Actual	*Budget*	*Variance Favorable (Unfavorable)*
Revenues:			
Federal grant	$ 769,000	$ 943,000	$(173,000)
Net patient service revenue	215,000	258,000	(43,000)
Contributions—unrestricted	57,000	25,000	32,000
[*State*] [*Disease*] Council	1,000	—	1,000
United Way	2,000	5,000	(3,000)
Total revenues, net of patient services deductions	1,044,000	1,231,000	(186,000)
Expenses:			
Personnel	412,000	445,000	33,000
Contractual patient care	308,000	415,000	107,000
Supplies	78,000	100,000	22,000
Fringe benefits	68,000	75,000	7,000
Travel	17,000	19,000	2,000
Rent	50,000	44,000	(6,000)
Insurance	17,000	22,000	5,000
Utilities	9,000	13,000	4,000
Equipment rental	36,000	38,000	2,000
Patient transportation	3,000	4,000	1,000
Repairs and maintenance	9,000	8,000	(1,000)
Publications	6,000	3,000	(3,000)
Telephone	5,000	6,000	1,000
Professional fees	9,000	9,000	—
Miscellaneous	42,000	22,000	(20,000)
Total expenses	1,069,000	1,223,000	154,000
Excess of expenses over net revenues	(25,000)		
Unrestricted net assets:			
At beginning of year	28,000		
At end of year	$ 3,000		

2.53

This club presents additional information about its various profit centers, both in dollars and percentages, as separate schedules. The schedule for one profit center is illustrated. Some clubs present such details in a note.

2.54

The EFG Club, Inc.
Beverage Department

	Year Ended December 31			
	20X2	*20X1*	*20X2*	*20X1*
	Amount		*Percent*	
Gross beverage sales	$ 904,000	$638,000	87.7	87.2
Beverage service charge	127,000	94,000	12.3	12.8
Total revenues	1,031,000	732,000	100.0	100.0
Less cost of sales	232,000	174,000	22.5	23.8
Gross profit	799,000	558,000	77.5	76.2
Departmental expenses:				
Payroll and related expenses:				
Salaries and wages	233,000	195,000	22.6	26.6
Payroll taxes	18,000	14,000	1.7	2.0
Employee meals	3,000	4,000	0.3	0.5
Employee benefits	13,000	10,000	1.3	1.4
Total payroll and related expenses	267,000	223,000	25.9	30.5
Other expenses:				
Bar expense	13,000	12,000	1.3	1.6
Bar food	40,000	27,000	3.9	3.7
Glassware	13,000	11,000	1.3	1.5
License	1,000	1,000	—	0.1
Miscellaneous	2,000	3,000	0.2	0.4
Printing and stationery	4,000	6,000	0.4	0.8
Uniforms	16,000	11,000	1.6	1.5
Total departmental expenses	356,000	294,000	34.6	40.1
Total cost of sales and departmental expenses	588,000	468,000	57.1	63.9
Beverage department income	$ 443,000	$264,000	42.9	36.1

2.55

Proceeds from special events must be shown gross of direct benefits expense, per paragraph 13.21 of the Audit and Accounting Guide *Not-for-Profit Entities* (the guide), but the expenses may be shown in the expense section of the statement or may be shown as in the following example. As noted in paragraph 13.22 of the guide, reporting net amounts is permitted, but not required, if the receipts and related costs result from special events that are peripheral or incidental activities.

2.56

YTL Entity
Statement of Activities [Unrestricted Revenue Section]
Year Ended June 30, 20X2

	Unrestricted
Public support and revenues:	
Public support:	
Contributions	$16,587,739
Special events:	
Proceeds	31,603,213
Less: direct expenses	(7,753,443)
Transfers from affiliates	2,100,861
Total public support	$42,538,370

2.57

Investment income may be shown gross or net of expenses. FASB ASC 958-225-45-14 states that investment revenues may be reported net of related expenses, such as custodial fees and internal and external investment advisory costs, provided that the amount of the expenses is disclosed either on the face of the statement of activities or in notes to financial statements. If shown net, the amount of expenses must be disclosed, either as a deduction in the preceding manner, in a note, or as part of the revenue caption, as follows.

Revenue:	
Other revenue	$1,650,000
Investment income, net of expenses of $24,750 etc.	236,000

2.58

A note (probably part of a longer note) would be as follows.

2.59

Note X: Investment Income

Investment income as reported is net of related expenses of $24,750.

SECTION 3: STATEMENTS OF CASH FLOWS

3.01

Financial Accounting Standards Board (FASB) *Accounting Standards Codification* (ASC) 230-10-45-25, encourages, but does not require, entities to use the direct method (reporting major classes of gross cash receipts and gross cash payments and their arithmetic sum—the net cash flow from operating activities) in reporting cash flows from operating activities. Both the direct and indirect methods are illustrated in the following examples.

3.02

Note that disclosures regarding noncash financing and investing activities are required. Examples of such noncash activities are donations of securities, land and buildings, assumption of a mortgage, and other comparable activities.

3.03

Note also that contributions restricted for long-term purposes, such as permanent endowments and the acquisition of property and equipment, are considered financing activities. If the indirect method is used, such contributions should be deducted from operating activities (accrual basis) and added to financing activities (cash basis).

DIRECT METHOD

3.04

MNP Foundation
Consolidated Statements of Cash Flows
Years Ended June 30, 20X2 and 20X1

	20X2	*20X1*
Cash Flows From Operating Activities:		
Cash received from contributions	$ 29,241,643	$ 37,840,167
Interest and dividends received, net of fees	19,936,243	17,168,553
Grants paid	(29,557,744)	(21,270,598)
Taxes paid	(400,000)	(300,000)
Cash paid:		
For other program expenses	(1,709,432)	(814,688)
To employees and suppliers	(3,570,203)	(3,544,809)
Net cash provided by operating activities	13,940,507	29,078,625
Cash Flows From Investing Activities:		
Proceeds from sale of investments	726,976,859	628,274,690
Purchases of investments	(749,407,752)	(657,835,849)
Purchases of equipment	(212,767)	(92,723)
Proceeds from investments in notes receivable	209,834	197,844
Net cash used in investing activities	(22,433,826)	(29,456,038)
Cash Flows From Financing Activities:		
Contributions to permanently restricted endowment funds	6,638,366	1,817,315
Contributions to charitable remainder unitrusts	450,000	
Payments to life tenants of charitable unitrusts	(71,455)	(63,884)
Net cash provided by financing activities	7,016,911	1,753,431
Net change in cash	(1,476,408)	1,376,018
Cash, beginning of year	1,612,678	236,660
Cash, end of year	$ 136,270	$ 1,612,678

3.05

FGH University
Statement of Cash Flows
Years Ended July 31, 20X2 and 20X1

	20X2	*20X1*
Cash Flow From Operating Activities:		
Tuition, fees, sales, and services of auxiliary enterprises	$ 521,184	$ 483,330
Investment income	155,366	139,991
Gifts, grants, and contracts	696,657	634,328
Receipts in agency accounts held for others	88,469	72,886
Cash paid to suppliers and employees	(1,202,374)	(1,112,936)
Disbursements from agency accounts	(89,221)	(71,500)
Interest paid	(39,350)	(38,477)
Net cash provided by operating activities	130,731	107,622
Cash Flow From Investing Activities:		
Land, building, and equipment purchases	(171,042)	(147,147)
Student, faculty, and other loans:		
New loans made	(27,709)	(22,445)
Principal collected	18,822	20,290
Purchases of investments	(2,488,892)	(2,979,991)
Sales of investments	2,363,125	2,829,983
Security lending collateral returned	34,192	(4,685)
Net cash used in investing activities	(271,504)	(303,995)
Cash Flow From Financing Activities:		
Gifts for endowment, capital projects, and student loans	109,674	133,478
Receipts under split-interest gift arrangements	100,000	
Income reinvested in endowment, capital projects, and student loans	20,137	6,765
Proceeds from borrowing	82,939	8,775
Repayment of debt	(14,630)	(25,827)
Net cash provided by financing activities	298,120	123,191
Increase (decrease) in cash and cash equivalents	157,347	(73,182)
Cash and cash equivalents, beginning of year	159,041	232,223
Cash and cash equivalents, end of year	$ 316,388	$ 159,041
Noncash Investing and Financing Activities:		
Receipt of donated fixed assets	$ 11,715	$ 18,000
Assumption of mortgage on donated fixed assets	2,040	
Donated investment securities	55,100	31,850

3.06

If the direct method of reporting net cash flow from operating activities is used, the reconciliation of the change in net assets to net cash flows from operating activities should be provided in a separate schedule (per FASB ASC 230-10-45-30). This schedule may be included in a note to the financial statements if desired, as shown in the following sample note.

3.07

Note X: Cash Flow Reconciliation

The change in university net assets is reconciled to net cash provided by operations as follows:

	20X2	*20X1*
Change in net assets	$ 762,671	$ 523,155
(Increase) in [*Affiliate*] net equity	(39,414)	(8,923)
Depreciation and retirement of fixed assets	140,926	94,869
Increase in accounts payable	67,121	39,857
(Increase) decrease in accounts receivable	(10,512)	6,158
Increase in inventories and prepaid expenses	(4,949)	(8,490)
Decrease (increase) in contributions receivable	20,789	(80,779)
Gifts, grants, and reinvested income of student loan, endowment, and plant net assets	(251,219)	(129,904)
Actuarial adjustment related to split-interest gifts	968	10,385
Realized and unrealized gains on investments	(555,650)	(338,706)
Net cash provided by operating activities	$ 130,731	$ 107,622

3.08

The following example illustrates an investing cash flows section showing subtotal of investment activity.

3.09

The BCD Foundation
Statement of Cash Flows [Partial]
Year Ended December 31, 20X2

	The BCD Foundation	[Affiliated] *Foundation*	*Total*
Cash Flows From Investing Activities:			
Payments for investments purchased	(197,723,450)	(1,123,524)	(198,846,974)
Received from sale of investments	141,437,801	1,939,636	143,377,437
Net (increase) decrease in investments	(56,285,649)	816,112	(55,469,537)
Principal payments received on program-related loans receivable	442,880		442,880
Disbursements to borrowers under program-related loans	(309,609)		(309,609)
Purchase of furniture and equipment	(10,549)		(10,549)
Net cash (used in) provided by investing activities	(56,162,927)	816,112	(55,346,815)

INDIRECT METHOD

3.10

Note that contributions and other income, which are permanently restricted, are shown as a deduction from the change in net assets to come to cash flows from operations. Also note that this deduction may not equal the corresponding addition in the financing section; this is because the first is an accrual basis item, whereas the second is cash basis.

3.11

Art Museum
Consolidated Statement of Cash Flows
For the Year Ended June 30, 20X2

Cash Flows From Operating Activities:	
Change in net assets	$ 69,624
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	2,982
Net realized and unrealized gains on long-term investments	(38,565)
Decrease in accounts receivable	7
Increase in contributions and grants receivable	(16,155)
Decrease in accrued investment income and other receivables	198
Increase in inventories	(1,553)
Increase in prepaid expenses and deferred charges	(961)
Increase in accounts payable, accrued expenses, and other liabilities	6,431
Decrease in deferred revenue	(1,623)
Contributions and net investment income restricted for long-term investment	(2,001)
Sales of works of art	(8,127)
Acquisition of works of art	22,488
Contributions and net investment income restricted for capital acquisition and construction	(23,151)
Net cash provided by operating activities	9,594
Cash Flows From Investing Activities:	
Purchase of property, plant, and equipment	(24,128)
Sales of investments	267,319
Purchase of investments	(277,067)
Sales of works of art	8,127
Acquisition of works of art	(22,488)
Net cash used in investing activities	(48,237)
Cash Flows From Financing Activities:	
Proceeds from sales of works of art:	
Investment in endowment	70
Contributions and net investment income restricted for:	
Capital acquisition and construction	23,381
Investment in endowment	2,001
Borrowings under mortgages and loans payable	11,000
Repayments on mortgages and loans payable	(1,746)
Net cash provided by financing activities	34,706
Net decrease in cash and cash equivalents	(3,937)
Cash and cash equivalents at beginning of year	15,193
Cash and cash equivalents at end of year	$ 11,256

SECTION 4: STATEMENTS OF FUNCTIONAL EXPENSES

4.01

A statement of functional expenses is a required statement for not-for-profit entities that are voluntary health and welfare entities. Voluntary health and welfare entities are defined in the AICPA Audit and Accounting Guide *Not-for-Profit Entities* (the guide) as . . . entities that derive their revenue primarily from voluntary contributions from the general public. . . . The term *general public* excludes government entities.

4.02

Entities have great flexibility about how many program and supporting service columns and how many lines are shown on the statements. However, the columns reflected by voluntary health and welfare entities should be the same as the functional expense line items in the statement of activities.

4.03

The first illustrated example is typical. See also section 7, under "Expenses." Various formats are used in practice to show comparative information. The ones illustrated are the most popular; others include showing comparative totals at the bottom of the statement in addition to or in place of the right-hand column. Alternatively, a complete prior-year statement can be presented, and must be, if the entity is a voluntary health and welfare entity, and the auditor intends to express an opinion on both years. Some entities combine all payroll expenses (salaries, employee benefits, payroll taxes) into one line.

4.04

Statement of Functional Expenses for the Year Ended August 31, 20X2
(With Comparative Totals for 20X1)

	Program Services				*Supporting Services*		*Total Program and Supporting Services*	
	Research	*Education*	*Patient Services*	*Community Services*	*Management and General*	*Fund-Raising*	*20X2*	*20X1*
Awards and grants	$70,620	$ 6,316	$ 350	$ 867	$ —	$ —	$ 78,153	$ 73,713
Salaries	2,732	29,656	13,337	7,848	9,771	18,076	81,420	74,715
Employee benefits	345	4,384	1,952	1,122	1,417	2,466	11,686	6,008
Payroll taxes	165	2,417	1,068	620	1,136	1,380	6,786	11,780
Professional fees	72	643	89	169	2,092	1,638	4,703	4,356
Supplies	142	1,678	630	394	568	1,218	4,630	4,352
Telephone	141	1,964	866	532	622	1,606	5,731	5,089
Postage and shipping	94	3,012	920	519	616	2,999	8,160	7,645
Occupancy	687	5,033	2,259	1,237	1,495	2,521	13,232	11,588
Information processing	256	1,063	461	272	662	1,549	4,263	3,858
Printing and publications	115	9,541	1,087	936	512	4,886	17,077	14,517
Meetings and conferences	739	4,010	1,044	1,046	1,088	2,166	10,093	9,818
Other travel	199	2,203	764	558	785	1,192	5,701	5,436
Specific assistance to individuals	—	—	9,848	540	—	—	10,388	9,772
Other expenses	51	693	284	379	913	904	3,224	2,853
Depreciation	734	2,363	935	594	919	1,132	6,677	5,119
Total expenses	$77,092	$74,976	$35,894	$17,633	$22,596	$43,733	$271,924	$250,619

4.05

Some entities display in their statement of functional expenses information about interdepartmental charges and the allocation of a pool of direct overhead expenses to other functions. This appears as in the following example (the format of the top part of the statement is as shown in the previous example).

4.06

This is a membership entity, which solicits new and renewing memberships rather than contributions. Its second supporting service is, accordingly, called "member development."

4.07

	Program		*Support*		
	Education	*Research*	*Management*	*Member Development*	*Total*
Salaries	$	$	$	$	$
Utilities					
[*Etc.*]					
Miscellaneous					
Interdepartmental charges	(10)	63	(148)	95	—
Subtotal	3,421	9,966	5,214	2,069	20,670
Allocation of direct supporting services	356	1,443	(2,542)	743	—
Total	$3,777	$11,409	$2,672	$2,812	$20,670

4.08

This entity has so many different functions and subtotals that presenting them in two "layers," rather than all side-by-side, is a practical way to avoid either crowding the numbers or using a fold-out page.

4.09

CRA Charity
Statement of Functional Expenses
For the Year Ended June 30, 20X2, With Comparative Totals for 20X1

	Program Services					*Total Program Services*
	Family Services	*Disaster Relief*	*Elderly Services*	*Community Services*	*Youth Services*	
Salaries and wages	$43	$ 28	$286	$ 46	$26	$ 429
Employee benefits	7	4	45	7	4	67
Total	50	32	331	53	30	496
Travel	3	4	16	4	5	32
Equipment maintenance and rental	3	2	12	2	1	20
Supplies and materials	2	4	128	18	3	155
Contractual services	10	14	139	18	11	192
Financial and material assistance	5	44	12	5	9	75
Total before depreciation	73	100	638	100	59	970
Depreciation of buildings and equipment	2	3	26	3	3	37
Total expenses	$75	$103	$664	$103	$62	$1,007

	Supporting Services			*Total Program Services (Shown Previously)*	*Totals*	
	Membership and Fund-Raising	*Management and General*	*Total Supporting Services*		*20X2*	*20X1*
Salaries and wages	$13	$30	$43	$ 429	$ 472	$429
Employee benefits	2	5	7	67	74	68
Total	15	35	50	496	546	497
Travel	1	5	6	32	38	33
Equipment maintenance and rental		1	1	20	21	21
Supplies and materials	1	5	6	155	161	147
Contractual services	12	14	26	192	218	180
Financial and material assistance	1	1	2	75	77	75
Total before depreciation	30	61	91	970	1,061	953
Depreciation of buildings and equipment	1	2	3	37	40	39
Total expenses	$31	$63	$94	$1,007	$1,101	$992

SECTION 5: DISCLOSURES—GENERAL

5.01

These sample notes are not necessarily complete for any given entity's circumstances. Also, the sample notes included in this publication are generally limited to those for which the fact that the entity is a not-for-profit entity introduces unique or different reporting or disclosure requirements, or both. Notes that do not differ based on the type of entity, such as pension disclosures required by Financial Accounting Standards Board (FASB) *Accounting Standards Codification* (ASC) 715, *Compensation—Retirement Benefits*, and capital leases (FASB ASC 840, *Leases*), are generally not included.

5.02

In practice, notes that include descriptions of accounting policies are often gathered together in one "Accounting Policies" note. Some or all of them are, however, sometimes included in other notes that include additional information about the item in question. For example, the entity's accounting policies related to fixed assets and depreciation may be presented in the note that summarizes fixed assets by type.

DESCRIPTION OF ENTITY AND GENERAL ACCOUNTING POLICIES

5.03

Paragraph 1340 of the AICPA Audit and Accounting Guide *Not-for-Profit Entities* (the guide) requires the financial statements to provide a description of the nature of the entity's activities, including a description of each of its major classes of programs, either on the statement of activities or in the notes to the financial statements. Some entities combine these two items into one note; others put them in two separate notes.

5.04

Note X: Nature of Entity and Significant Accounting Policies

Entity and Basis of Presentation

The accompanying consolidated financial statements present the consolidated financial position, changes in net assets, and cash flows of the entity. All significant intraorganizational accounts and transactions have been eliminated. The entity has national and international programs that are conducted by its headquarters (national sector) and various affiliates, discussed in the following text. These consolidated financial statements also include the net assets and operations of [*Company*] Ltd., a 100 percent-owned captive subsidiary.

Nature of Entity

The [*Denomination*] Church Corporation (DCC) is a [*State*] corporation formed in 19T8 as the church's world headquarters. The corporation is a nonprofit religious entity, exempt from income tax under Section 501(c)(3) of the U.S. Internal Revenue Code. The [*Denomination*] Church of Canada is a Canadian charity formed in June 19V4 and is exempt from income tax under Section 149(l)(f) of the Income Tax Act of Canada. The DCC and the [*Denomination*] Church of Canada participate in a joint effort to administer and promote the purposes and activities of the denomination.

The financial statements of the DCC include the operations of the following entities for which control and economic interests exist:

- The following 501(c)(3) tax-exempt, liberal arts colleges and universities, with June 30 fiscal year ends:
  - — [*College*] in [*State*]
  - — [*Bible College*] in Canada (tax exempt under the provisions of the Income Tax Act in Canada)
  - — [*College*] in [*State*], including its affiliates, [*School*] and the [*School*] Foundation

  - — [*Denomination*] University in [*State*], including its affiliate, the [*Denomination*] Retirement Center, a 501(c)(3) tax-exempt, elderly care facility consisting of [*Health Care Center*] and [*Retirement Apartments*]
- [*Denomination*] Investment Foundation is a 501(c)(3) tax-exempt corporation (August 31 fiscal year end) organized to loan funds to member churches and other church-related entities of the DCC located throughout the United States and abroad for various building programs.
- [*Denomination*] Indian Ministries is a 501(c)(3) tax-exempt, corporation (June 30 fiscal year end) organized to promote, develop, and supervise the evangelization to the Indian peoples.
- [*Children's Home*], Inc. is a 501(c)(3) tax-exempt entity (June 30 fiscal year end) that provides a residential program for children from ages 6–17 who are dependent, neglected, or abused.

Principles of Consolidation

The financial statements of the DCC include all activities conducted through its international headquarters and the subsidiary entities previously described. The international headquarters' activity includes the following:

- Operations of the [*Denomination*] Church of Canada.
- Receipt of United Stewardship Fund and Educational Institution Fund remittances from church districts.
- Receipt of other funds from church districts and individuals, including support for World Missions missionaries and projects.
- Disbursement of home office department budgeted and restricted funds.
- Disbursement of Educational Institution Fund contributions to the denomination's institutions of higher education based on an approved formula (these transactions are eliminated from the combined financial statements).
- Operations of [*Press*] and [*Denomination*] Women International.
- Receipts and disbursements of World Missions foreign fields such as hospitals, schools, and other such revenue-producing activities.

DCC does not include the operations of the local [*Denomination*] churches and corresponding districts due to the control structure of those entities. The statements also do not include the [*Denomination*] Pension Fund, Inc., as provided by generally accepted accounting principles.

Trust Funds and Funds Held for Others

Trust agreements administered include revocable trusts, irrevocable trusts, charitable remainder annuity trusts and unitrusts, and charitable lead trusts. (Trusts held for others are reported as liabilities—funds held for others. Trusts are reported as part liabilities as described in note [*number*] and part net assets as disclosed in note [*number*]. The net assets portion represents the present value of future irrevocable cash flows due the entity.)

Funds held for others include those administered as an agent for other committees, agencies, and institutions. The types of funds include endowments, annuities, charitable remainder trusts, revocable trusts, and other funds as described in note [*number*].

The entity administers the following types of funds for its own operations and as an agent for others.

Charitable Gift Annuities

Annuity agreements are issued in exchange for a payment that constitutes part charitable contribution and part purchase of an annuity, providing for payments to the stated annuitant(s) during their lifetime(s). These agreements constitute a general obligation of the entity. (The gift portion of annuities and investment reserves in excess of liabilities are reported as net assets. Annuities administered for others are included in funds held for others).

Advise and Consult Funds

Charitable fund agreements allow donors to make outright charitable contributions to a fund that is used to provide charitable donations to qualified entities. The funds are under the complete control of the entity, but donors are allowed to make recommendations about their distribution. (Advise and consult funds are reported as designated net assets).

Endowment Funds

Endowments are established by donors to provide investments with investment earnings to be used for charitable purposes. The entity also establishes certain endowment funds, of which, principal or income may be expended as directed. (Endowments of the entity are reported as unrestricted designated net assets because principal and income are expendable at the discretion of the board. Endowments are also administered for others).

Contributed Services and Materials

Contributed services are reported in the financial statements for voluntary donations of services when those services (1) create or enhance nonfinancial assets, or (2) require specialized skills provided by individuals possessing those skills and are services that would be typically purchased if not provided by donation.

Donated materials are recorded at their fair value at the date of the gift. The entity does not imply time restrictions for gifts of long-lived assets. As a result, in the absence of donor-imposed restrictions, gifts of long-lived assets are reported as unrestricted revenue.

5.05

Note X: Basis of Presentation

The foundation reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

5.06

Note X: Nature of Entity

The Ballet Association (the association) is a nonprofit corporation organized in 1972. The association stages several major ballets each year, operates a ballet school, and promotes public interest in the art of ballet. The mission of the association is to be a premier cultural asset esteemed in the community and the world of dance for

- inspired performances that engage discerning audiences at home or on tour;
- a school that trains future dancers and nurtures passion, creativity, and discipline in every child who attends;
- a solid financial base that supports artistic innovation while ensuring long-range stability;
- integrity in human relationships, without which other achievements are incomplete; and
- dedicated artists, teachers, students, staff, trustees, audience members, and supporters, who all find their lives enhanced by their sharing in this enterprise.

5.07

Note X: Summary of Significant Accounting Policies [Portion of Longer Note]

Principles of Consolidation—The accompanying consolidated financial statements include the financial position, changes in net assets, and cash flows of the ballet and the foundation because the ballet has both control and economic interest in the foundation. Inter-entity transactions and accounts have been eliminated in the consolidation.

5.08

Note X: Entity and Accounting Policies

Entity

The American [*Disease*] Society, Inc. (the society) is the nationwide, community-based, voluntary health entity dedicated to eliminating [*disease*] as a major health problem by preventing [*disease*], saving lives, and diminishing suffering from [*disease*] through education, advocacy, and service.

Principles of Consolidation

The accompanying combined financial statements include the accounts of the National Home Office of the Society (the national home office) and the American [*Disease*] Society of Puerto Rico (Puerto Rico). Puerto Rico is a membership corporation with the national home office as its only member. There, consolidated accounts are combined with the accounts of the American [*Disease*] Society [*Disease*] Action Network (the action network), and the society's 13 chartered divisions (the divisions), which are separately incorporated. All significant intrasociety accounts and transactions have been eliminated in the accompanying combined financial statements.

5.09

Note X: Organization and Operations

The [*City*] Zoological Society (the society) is a nonprofit public benefit corporation organized in 19T4 for charitable, scientific, and educational purposes for the study and promotion of zoology and wildlife conservation and for the education and recreation of the public.

The society currently provides a wide range of services for the city and county of [*City*] at the [*City*] Zoological Gardens (the zoo). The society and the city have negotiated a management agreement, which incorporates animal care, management of all facilities, operations, community support, and public services.

5.10

Note X: Nature of Operations and Related Parties

American [*XYZ*] Association (A[*XYZ*]A) is a national, not-for-profit voluntary health agency dedicated to the conquest of [*XYZ*] disease. The A[*XYZ*]A conducts programs to inform the public of air conservation, occupational health, smoking, and health hazards, [*XYZ*] disease, and community health. It also conducts professional education programs in these same areas, which include the sponsorship of symposia, conferences, and meetings among medical professionals, as well as publications, films, fellowships, and research grants.

Related Parties

There are 59 constituent [*XYZ*] Associations, which have jurisdiction over specific geographic areas or over certain of the 76 affiliated [*XYZ*] associations. Each constituent or affiliated [*XYZ*] Association, or both, is required to remit 10 percent of its shareable income to A[*XYZ*]A. In return, A[*XYZ*]A provides supplies and certain services to its constituents' programs. Supplies provided by A[*XYZ*]A include health education materials, which are provided at a price, which approximates cost.

5.11

Note X: Basis of Presentation

[*University*] is a private, not-for-profit educational institution, organized into 7 schools on 3 campuses, with approximately 1,800 faculty and over 15,000 graduate and undergraduate students.

The financial statements include the accounts of the university, the [*University*] Hospital and Clinics, the Children's Hospital at [*University*] and other majority-owned or controlled entities. All significant interentity transactions and balances have been eliminated upon consolidation. In addition, the university manages and operates [*Affiliated Research Laboratory*] for the United States Department of [*XX*] under a management and operating contract; therefore, the revenues and expenditures of [*Laboratory*] are included in the statement of activities. [*Affiliated Institution*] is an integral part of the university and is included in the financial statements. Auxiliary activities include Housing and Dining Services, intercollegiate athletics, and certain patient care provided by the School of Medicine.

5.12

Note X: Basis of Accounting

The accounts of the entity are maintained on the accrual basis in accordance with the principles of fund accounting. Separate accounts are maintained for each fund; however, the accompanying financial statements have been prepared on a basis that shows the financial position and changes in net assets of the entity in total. Funds with similar characteristics have been combined for financial statement presentation into the following categories.

- Funds with unrestricted net assets:
  - — Operating fund
  - — Board-designated funds (including board-designated endowments)
  - — Property fund
- Funds with temporarily restricted net assets:
  - — Research fund
  - — Deferred gifts fund
  - — Scholarship fund
  - — Term endowment funds
- Funds with permanently restricted net assets:
  - — Challenge endowment fund
  - — Permanent endowment funds

5.13

The following are examples of two notes used to describe non-generally accepted accounting principles (GAAP) policies with an immaterial effect on the financial statements.

5.14

Note X: Basis of Accounting [Financial Statements are on a GAAP Basis]

The entity does not provide an allowance for uncollectible pledges receivable, but rather expenses such items in the period they become uncollectible. This practice differs from GAAP, but its impact is deemed immaterial.

5.15

Note X: Basis of Accounting [Financial Statements are on a GAAP Basis]

The college recognizes interest and dividend income substantially on the cash basis and does not amortize bond premiums or accrete bond discount, except that the discount on zero-coupon bonds is accreted, and the income on guaranteed investment contracts is accrued. The difference between such policies and those that would result from following the full accrual, amortization, and accretion methods is not material.

5.16

Note X: Net Asset Categories

For financial reporting purposes, net assets and revenues, expenses, gains, and losses are classified into one of three categories: unrestricted, temporarily restricted, or permanently restricted.

Unrestricted net assets. Unrestricted net assets are expendable resources used to support the university's core activities of teaching and research or the [*Affiliated Hospitals'*] patient care, teaching, and research missions. These net assets may be designated by the university or the [*Affiliated Hospitals*] for specific purposes under internal operating and administrative arrangements or be subject to contractual agreements with external parties. Donor-restricted contributions that relate to the university's or the [*Affiliated Hospitals'*] core activities and are received and expended, or deemed expended based on the nature of donors' restrictions, are classified as unrestricted. All expenses are recorded as a reduction of unrestricted net assets. Unrestricted net assets include funds designated for operations, plant facilities, certain investment and endowment gains, and funds functioning as endowment.

Management considers all revenues and expenses to be related to operations. Increases (decreases) in reinvested gains, donor advised funds, capital and other gifts released from restrictions, hospital equity transfers, amounts transferred to other net asset categories, and certain other nonoperating changes are reported in other changes in unrestricted net assets.

Transfers from unrestricted net assets to temporarily restricted net assets and permanently restricted net assets are primarily the result of donor redesignations or matching funds that are added to the donor gift funds and then take on the same restrictions as the donor gift.

Temporarily restricted net assets. Temporarily restricted net assets include gifts and pledges that are subject to donor-imposed restrictions that expire with the passage of time, payment of pledges, or specific actions to be undertaken by the university or the hospitals, which are then released and reclassified to unrestricted support. In addition, appreciation and income on certain donor-restricted endowment funds are classified as temporarily restricted net assets until authorized for spending (see note X). Donor-restricted resources intended for capital projects are initially recorded as temporarily restricted and released from their temporary restrictions and reclassified as unrestricted support when the asset is placed in service.

Permanently restricted net assets. Permanently restricted net assets consist principally of endowment, annuity, and life income funds, which are subject to donor-imposed restrictions requiring that the principal be invested in perpetuity. Permanently restricted net assets may also include funds reclassified from other classes of net assets as a consequence of donor-imposed stipulations.

5.17

Note X: Net Asset Accounting

Museum resources are classified and reported in the accompanying consolidated financial statements as separate classes of net assets based on the existence or absence of donor-imposed restrictions as follows:

Permanently restricted net assets. The part of the net assets resulting (*a*) from contributions and other inflows of assets whose use by the museum is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the museum, and (*b*) from other asset enhancements and diminishments subject to the same kinds of stipulations.

Temporarily restricted net assets. The part of the net assets resulting (*a*) from contributions and other inflows of assets whose use by the museum is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of the museum pursuant to those stipulations, (*b*) from other asset enhancements and diminishments subject to the same kinds of stipulations, and (*c*) from reclassifications to (or from) other classes of net assets as a consequence of donor-imposed stipulations, their expiration by passage of time, or their fulfillment and removal by actions of the museum pursuant to those stipulations.

Unrestricted net assets. The part of net assets that is neither permanently restricted nor temporarily restricted by donor-imposed stipulations.

Contribution and grant revenue, including unconditional promises to give, are reported in the period received as increases in unrestricted net assets unless use of the related assets is limited by donor imposed restrictions.

Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law. Expirations of temporary restrictions on net assets (meaning that the donor-stipulated purpose has been fulfilled, the stipulated time period has elapsed, or both, as applicable) are reported as net assets released from restrictions in the accompanying consolidated statement of activities.

Federal government grants and contracts are included in unrestricted contributions and grant revenue on the accompanying consolidated statement of activities. Revenue from grants and contracts is recognized when earned, that is, generally as the related costs are incurred under the grant or contract agreements. Amounts expended in excess of reimbursements are reported as government grants receivable.

The City of [*City*] and the State of [*State*] grants for capital projects are recorded as unrestricted revenue as the work is performed.

5.18

In this example, the temporary restriction was stipulated by the donor, but the board has placed an additional designation on the amount by deciding to spend only the income from investment of the gift, but not the gift itself.

5.19

Note X: Designated Temporarily Restricted Net Assets—Musical Endowment

Through a generous gift by [*Person*], an endowment has been created to assist in the production of musicals at [*Theater*]. The principal will be invested and the earnings of the fund allocated at the discretion of management for support of the production of musicals at [*Theater*]. The decision to maintain the corpus of this fund is not a requirement of the gift, but is the choice of the board of trustees and may be changed at its discretion.

5.20

Note X: Summary of Significant Accounting Policies

In-kind contributions consisted of goods and services for which $261,000 has been reflected in the financial statements for the year ended May 31, 20X2. Additionally, volunteers have donated significant amounts of time to the association in various capacities. However, these services have not been reflected in the financial statements because they neither require specialized skills nor would have been typically purchased had they not been donated. The value of these services is not readily determinable.

Restricted endowment net assets are so stipulated by the donor and consist of the original principal to be held in perpetuity and the related gains and losses (realized and unrealized) thereon. The board has interpreted [*State*] law, in effect at May 31, 20X2, as requiring permanent retention of the gains on restricted endowment funds, and those gains are recorded as permanently restricted net assets.

Charitable perpetual trusts consist of funds administered outside of the association in which the association has the irrevocable right to receive the income earned on the trust assets in perpetuity, but never receive the assets held in trust.

5.21

Note X: Summary of Significant Accounting Policies [Portion of Longer Note]

Perpetual trusts. The federation is the beneficiary of perpetual trusts held by other entities, as trustees. The federation's beneficial interest in these trusts is recorded at the fair value of the assets underlying the trusts.

Pooled life income fund. The federation has established a pooled life income fund held by another entity, as trustee. Each donor to the fund shall receive a proportionate share of the fund's income during the donor's lifetime. Upon each donor's death, the units in the fund attributable to that donor shall become the property of the federation and shall be added to its endowment fund. The federation's beneficial interest in the fund is recorded at the fair value of the assets underlying the fund.

5.22

Note X: Fluctuations in Revenues and Expenses

Due to the emphasis of the entity's programs on provision of disaster relief, the level of entity activity normally varies from year to year by a considerable amount, depending on the number of incidents occurring, which cause people to need the entity's help. In 20X2, a significantly higher number of such incidents occurred and, accordingly, expenses were higher than in 20X1, and additional funds were raised to cover the increased expenses and to rebuild the entity's reserves for future disasters.

CONTINGENCIES AND OTHER UNCERTAINTIES, INCLUDING GOING CONCERN QUESTIONS

5.23

Note X: Contingencies

The entity has guaranteed certain obligations, principally mortgages and leases on properties owned by related parties, totaling $17,200,000 at June 30, 20X2.

Various lawsuits, claims, and other contingent liabilities arise in the ordinary course of the entity's activities. In December 20X1, a $400,000 settlement, including damages, was reached with the United States Department of Health and Human Services for alleged billing errors totaling approximately $350,000, under Part B of the Medicare Program during the period 20VV–20WW. The effect of the settlement had no material impact on the Statement of Activities for fiscal year 20X2.

Based upon information currently available with respect to the aforementioned contingencies, management believes that any resulting liability will not materially affect the financial position or operations of the entity.

5.24

Note X: Guarantee of Indebtedness

The entity is a guarantor of mortgage debt of ABC Residence Corp. The principal balance of the loan is $1,263,000 at December 31, 20X2. The total remaining scheduled payments through 20Y6 are $1,897,000. The guarantee arose under the original terms of the loan agreement. Payments by the entity under the guarantee would occur upon ABC Residence Corp.'s failure to make principal and interest payments when due. The loan is secured by the related real estate. Management of the entity expects that proceeds from the sale of the mortgaged property would exceed the debt.

5.25

Note X: Commitments

The museum has entered into various construction contracts. The museum also maintains an encumbrance system for tracking outstanding purchase orders and other commitments for materials or services not yet received during the year. Encumbrances totaled approximately $9,449,000 at June 30, 2009. Outstanding encumbrances do not constitute expenses or liabilities and are not reflected in the accompanying consolidated financial statements.

5.26

Note X: Contingencies, Commitments, and Guarantees

The foundation is involved in several legal actions. The foundation believes it has defenses for all such claims, believes the claims are substantially without merit, and is vigorously defending the actions. In the opinion of management, the final disposition of these matters will not have a material effect on the foundation's financial position. The foundation, as part of its program-related investment activities, has outstanding loan guarantees of $950,000 and is committed to provide $1,953,000 of loans to nonprofit entities. The foundation's loan guarantee serves as a back-up to guarantees made by other entities. As of June 30, 20X1 and 20X2, the guarantee has not been drawn and, therefore, the foundation believes that the estimated fair value of the guarantee and any related liability is zero. Further, as part of its investment management activity, the foundation is committed to additional funding of $9,980,000 over a period of years in venture capital partnerships and real estate investment trusts.

5.27

Note X: Contingencies and Commitments

A claim has been filed in the amount of $10,000,000 in connection with injuries allegedly sustained by a performer who appeared in a [*Performing Arts Center*] production in December 20X1. If, and to the extent that, the center is liable, management and counsel believe that the center will not incur a loss because any claim will be paid by [*City*], pursuant to insurance coverage with limits adequate to cover the claim as thus far asserted.

The center has entered into commitments related to performances, conductors, guest artists, and certain employees regarding payments for service through fiscal year 20X3 in the amount of $2,373,841.

As of September 29, 20X2, approximately 40 percent of the center's employees are members of various labor unions. These labor unions are for box office, stagehands, wardrobe, and musicians. During fiscal year 20X2, all union agreements terminated, except for musicians', which terminates on September 1, 20X3. As of November 27, 20X2, the center renegotiated all of the union agreements, except for the box office. The new union contracts included inflationary salary increases for each year negotiated.

Delays in agreeing on labor contracts when they expire could result in work stoppage, the cancellation of center performances, and a loss of revenues.

The musicians' union agreement was negotiated in September 20W9. As part of this renegotiated agreement, the musicians are to receive increasing salary raises through fiscal year 20X3, which will average approximately 14 percent for the year. This increase will increase [*Orchestra*] program costs by more than $1 million, and it is not likely that such costs will be recovered through operating revenues. Therefore, if the musicians' agreement is not modified, the center will need to generate additional revenues or reduce costs of programs to offset the expected increased cost of orchestra programs.

The [*Orchestra*] has incurred losses for several years. The ability of the center to continue to reduce and eliminate its operating deficit is dependent on, among other things, the ability of management to reduce the losses incurred by the orchestra.

5.28

Note X: Going Concern

The accompanying financial statements have been prepared in conformity with generally accepted accounting principles, which contemplate continuation of the entity as a going concern. The entity had sustained substantial operating losses in past years and had used substantial amounts of working capital in its operations. Further, at June 30, 2009, current liabilities exceed current assets by approximately $1,500,000, and total liabilities exceed total assets by approximately $500,000.

In view of these matters, realization of a major portion of the assets in the accompanying balance sheet is dependent upon continued operations of the entity, which in turn, is dependent upon the entity's ability to meet its financing requirements and the success of its future operations. These factors raise substantial doubt about the entity's ability to continue as a going concern. The entity has developed a management plan to manage its cash flow and liabilities through management of expenses and seeking new sources of support. The ability of the entity to continue as a going concern is dependent upon the success of these plans. The financial statements do not include any adjustments that might be necessary if the entity is unable to continue as a going concern.

5.29

Note X: Risks and Uncertainties

The entity is engaged primarily in training hard-core unemployed persons to reenter the job market. Funding for its programs is from the U.S. Department of Labor (80 percent) and private foundation grants (20 percent). The entity is paid by the U.S. Department of Labor based upon the number of persons successfully trained. Certain persons may not complete the training program and, thus, the entity will not be paid for the training of those persons.

5.30

Note X: Union Contract

Most nonmanagement personnel of the entity are members of the XYZ Union. The collective bargaining agreement will terminate in April 20X3. Negotiations between management and the union have commenced. It is not possible at this time to determine what the financial impact of a new contract will be on the entity.

5.31

Note X: Government Support

The entity received a substantial amount of its operating support from state and local governments. Any significant reduction in the level of this support could have an effect on the entity's programs.

5.32

Note X: Contingent Liabilities

The entity has not fully complied with certain requirements applicable to its financial awards program. Consequently, some costs may subsequently be disallowed by the affected funding agency. The amount of costs, which may subsequently be disallowed, if any, cannot be reasonably estimated.

5.33

Note X: Commitments and Contingencies

The university conducts substantial sponsored research for the federal government pursuant to contracts and grants from federal agencies and departments. The [*Federal Department*] is the cognizant federal agency for determining indirect cost rates charged to federally sponsored agreements.

During 20W8, disagreements arose between the university and [*Department*] over the appropriateness of some of the university's indirect and similar charges, as well as the methods used to allocate specific indirect costs to those agreements. In June 20X1, the university settled its contractual disputes with the federal government and agreed to pay $565,000 and dismiss its claims for underrecovery.

The university is still defending an action alleging inappropriate allocations and billings of indirect costs for earlier years. The university believes it has meritorious defenses and intends vigorously to contest any such claims or litigation. The university believes that resolution of this suit will not have a material adverse effect on its financial position.

The university has substantially settled overhead rates applicable to 20X1 and prior years on government contracts. Project revenue for 20X2 includes an amount for overhead applicable to billings to the United States government, which is subject to possible increase or decrease by negotiation. In the opinion of management, adequate provision has been made in the accounts for any adjustment that may result.

5.34

Note X: Facilities Renovations and Earthquake Damage

As a result of changes in federal regulations, state building codes, and a major earthquake in 20W9, the university has committed to make seismic improvements, code upgrades, and repairs to campus buildings. The university estimates that approximately $25,600,000 of repairs and upgrades remains to be made. A number of campus buildings suffered structural damage in the earthquake, which forced their closure. In connection with state and local legislation, the university has submitted a plan to [*County*] to strengthen certain buildings by September 20X4. The university has determined that certain other (nonseismic) improvements, although technically required only for new construction, are important to conform campus buildings to the current Uniform Building Code.

As of June 30, 20X2, the Federal Emergency Management Agency has reimbursed $16,000,000 to the university and has agreed to fund an additional $7,300,000. The university plans to finance the remaining costs with gifts, debt, and other existing funds.

5.35

Note X: Litigation Matters

In August 20X2, the [*City*] Police Department arrested a long-time employee of the entity on charges of felony theft. The employee was allegedly stealing cash receipts from the entity box office. Related to this matter, the entity filed an insurance claim and a lawsuit against the former employee; the arrested employee filed a counterclaim asserting wrongful termination and defamation. On August 26, 20X2, trial in this matter was concluded, and the entity prevailed in its claim for wrongful conversion of funds. The court awarded the entity damages of $172,555 plus costs, which, because of the uncertainty of collection, has not been reflected in the financial statements as of June 30, 20X2.

5.36

FASB ASC 450, *Contingencies*, sets a very high standard to be met before a contingent asset may be recorded. However, note disclosure of such matters is appropriate.

5.37

Note X: Unrecorded Contributions

During fiscal year 20X1, the school was notified that it had been bequeathed a portion of the estate of a deceased donor. As of July 31, 20X2, the amount to be received by the school was indeterminable pending finalization of certain legal and estate tax matters.

In view of the uncertainty of the ultimate amount to be received, the school has not recognized the foregoing contribution. Accordingly, the financial statements will not reflect this amount until such time as it is received in the form of cash, or until the actual amount to be received can be determined with reasonable certainty.

5.38

Note X: Federal Income Tax [See Also Other Tax-Related Notes in Section 7]

The entity is a nonprofit corporation that paid federal income tax at prevailing corporate rates on its unrelated business taxable income for years prior to 20W9. As a result of uncertainties regarding its obligations to pay federal income tax, no payments have been made for years from 20W9–20X1, and a payment of $150,000 was made for 20X2. At December 31, 20X2, provision has been made for additional federal income tax, which may be payable for years from 20W9–20X2 in the aggregate amount of $1,200,000, including accrued interest of $135,000.

In 20X2, an IRS agent completed examination of the entity's tax returns for the years 20W9–20X1 and proposed revocation of the entity's exempt status commencing in 20W9. Should the agent's proposal ultimately be upheld, the entity's liability for income taxes and interest would be approximately $3,500,000 more than the amount accrued at December 31, 20X2. The entity has protested the agent's findings, and, in the opinion of the entity's management and legal counsel, the findings are without merit.

5.39

Note X: Real Estate Taxes

On May 1, 20X1, the town of [*Town*], where the arboretum facility of the [*Botanical Garden*] is located, revoked the real property tax exemption for that property effective fiscal 20X2. The Board of Assessment Review upheld the action of the assessor on July 20, 20X1. The garden has filed petitions in the Supreme Court of [*State*] to overturn this decision. Although the outcome of this litigation may not be predicted with certainty, it is the opinion of counsel that said property should be exempt from real estate taxation. If upheld, the action of the assessor will result in real estate taxes owed the town of [*Town*] in the amount of approximately $115,000 for the fiscal year ending June 30, 20X3. As a result, the garden has not recorded a liability for this amount. A similar amount was accrued and paid under protest during the fiscal year ended June 30, 20X2. Because the garden expects that this payment will be returned, it has been recorded as prepaid tax in the balance sheet.

5.40

Note X: Management's Plans

In 20X1, the entity began the renovation of the [*Theatre*]. Final costs were approximately $20 million, which was greater than the original budgeted costs. In addition, the entity suffered revenue losses due to the closure of the [*Theatre*] during the renovation. The [*Theatre*] was reopened in January 20X2.

As of June 30, 20X2, the entity has negative net assets of $604,905. This is directly attributable to the renovation of the [*Theatre*], including the loan discussed in note [*number*]. Because the entity has no long-term assurance of continuing use of the [*Theatre*], the renovation costs are not considered an asset of the entity (see note [*number*]).

[*Note: This treatment is unusual; generally, leasehold improvements are reflected as an asset.*]

The management of the entity anticipates eliminating the negative net asset balance through a combination of the following activities:

- The entity is a plaintiff in a lawsuit, and management expects to prevail and obtain damages.
- Management anticipates an increase of revenues from the Facility Free Ticket Surcharge as a result of increased ticket sales for various performances at the [*Music Center*] complex, particularly the [*Theatre*] season.
- Management has reduced staff and instituted a freeze on spending, except for budgeted projects.
- The entity's sublease with [*County*] contains a provision that for any fiscal year in which expenses exceed revenues, the entity can submit a bill to [*County*] for the deficit which shall be paid by the county within 60 days.

5.41

Note X: Bonds Payable

Principal payments of $113,703 on the dormitory bonds with the Department of Housing and Urban Development (HUD) have not been paid when due during fiscal 20X2 and prior years; in addition, interest payments of $17,755 have not been paid when due during such years. During fiscal 20X2, interest payments of $44,949 were made; $34,325 was applied to delinquent interest and the remainder to fiscal 20X2 interest. The nonpayment of principal and interest constitutes an event of default under the indentures relating to the bonds and enables the trustees to declare the remaining balance immediately due and payable; the trustees have not taken such action. Officials of the college have been negotiating with HUD to obtain deferments or moratorium on the required deposits and principal and interest payments. The college's administration expects to make payments in fiscal 20X3, which will liquidate the delinquent interest amounts and begin reducing the delinquent principal balances.

The dormitory bond indentures with HUD contain provisions, which require that net revenues of [*Dormitory*] and the North Campus cafeteria, or certain minimum amounts, whichever is greater, be deposited with a trustee. The college has not made such deposits, and the unrestricted net assets balance was reduced in prior years to reflect the deposit obligation amounting to $136,910.

The library building bond indenture with HUD contains provisions, which require the college to maintain debt service deposits with a trustee in the amount of $23,000. The college has been granted an indefinite moratorium, which may be terminated upon 30 days notice, on the requirement to maintain such deposit until the principal and interest delinquencies have been paid.

RELATED PARTIES

General Matters

5.42

Not-for-profit entities are often related to other entities in various ways. One entity may carry out program, management, or fund-raising activities on behalf of another, or two or more entities may conduct joint program or fund-raising activities, share staff or facilities, or operate under an affiliation agreement with a national organizational parent such as a charity, religious denomination, or association. Entities may also be considered related parties to entities with which their officers, directors, trustees, key employees, or major donors are otherwise affiliated.

5.43

Note X: Principles of Combination

The financial statements report the worldwide ministries of [*Entity*] International, including material liabilities, net assets, revenues, and expenses of its 27 fields of service around the world. The statements do not include the assets, liabilities, net assets, revenues, and expenses of [*Entity*]-Canada not held by or remitted to [*Entity*] International under the joint-ministries agreement because [*Entity*]-Canada is not controlled by either [*Entity*]-U.S. or [*Entity*] International. As a participant in the joint-ministries agreement, [*Entity*]-Canada provided contributions of $1,369,765 and $1,543,120 (in U.S. dollars) to [*Entity*] International during 20X2 and 20X1, respectively. The statements include all international and U.S. operations, which are conducted under the joint-ministries agreement, and all contributions from [*Entity*]-Canada for specific projects and missionary support accounts.

[*Entity*]-Canada is audited by other auditors who reported on financial statements, which disclosed the following:

	December 31	
(In Canadian dollars)	*20X2*	*20X1*
Total assets	1,158,578	1,069,100
Total liabilities	52,857	66,021
Total net assets	1,105,721	1,003,079
Total revenues	3,255,957	3,228,004
Total expenses	3,083,138	3,202,900

5.44

Note X: Changes in Affiliation

Changes in the composition of the affiliates included in the combined financial statements occur for several reasons:

- New entities are affiliated with the foundation.
- Entities cease to be affiliated with the foundation.
- Entities fail to comply with the affiliation agreement, including financial reporting requirements. Such entities are included in the combined financial statements of subsequent years, if compliance with the financial reporting requirements is met.

For affiliates that have net assets as of the beginning of the year of change in affiliation, such changes are accounted for in the combined financial statements as though they took place as of the beginning of such year.

The following summarizes the changes in net assets for the year ended December 31, 20X2:

Additions resulting from financial reports submitted in the current year but not in the prior year	$1,700,822
Reductions resulting from financial reports not submitted in the current year but were submitted in the prior year	(8,435)
	$1,692,387

5.45

Note X: Related-Party Transactions

The [*Entity*] is affiliated with numerous agencies of the [*Denomination*] Church, including dioceses, parishes, welfare agencies, committees, schools, and missions. Related-party transactions and balances include the following:

	Years Ended December 31	
	20X2	*20X1*
Support and expenses:		
Support from committees and agencies	$ 218,149	$ 229,556
Contributions to committees and agencies, ministries, and churches:		
Unrestricted distributions	1,314,931	1,076,812
Distributions of funds held for others	271,912	612,318
Rent expense paid to administrative committee	21,600	20,883
Assets and liabilities:		
Due from committees and agencies	$ 24,171	$ 23,534

5.46

Note X: [Entity] *Foundation, Inc.*

In 20X1, the board of directors of the entity formed the foundation for the purpose of holding certain investments and soliciting contributions on behalf of the entity. The foundation board of directors includes certain directors of the entity, and its bylaws require that all contributions and earnings on invested assets inure to the benefit of the entity. Accordingly, the accounts of the foundation have been consolidated herein, as required by generally accepted accounting procedures.

5.47

Note X: [Entity] *Foundation*

The [*Entity*] Foundation is an independent corporation formed for the purpose of obtaining and disbursing funds for the sole benefit of the entity, although the elements of control necessary for consolidation are not present. The September 30, 20X2, unaudited financial statements of the foundation reflect assets and corresponding net assets of $17,780,000. Assets consist primarily of cash and investments. Revenues for the year ended September 30, 20X2, principally gifts, approximated $11,300,000. Expenditures and transfers to the entity approximated $1,100,000 and $4,000,000, respectively, for the same period.

5.48

Because the entity and the foundation are financially interrelated entities, as discussed in FASB ASC 958-20-25-2, the beneficiary (the entity) should recognize its interest in the net assets of the recipient entity (the foundation).

5.49

Note X: Intercorporate Agreement

An intercorporate agreement between [*College*] and [*University*] provides for payment for the exchange of certain services between the two institutions. These services include cross-registration for students, library services, faculty exchange, and certain special services and support costs. During the year ended June 30, 20X2, [*College*] paid [*University*] $1,540,000 for services provided under the terms of the agreement.

5.50

Note X: Related Parties

The facilities occupied by the school are owned by the Sisters of the [*Religious Order*] (monastery). The school has an agreement with the monastery to lease the facilities at a rental rate based upon area occupied. The monastery assumes all the costs for payments on the monastery's building loan, insurance, additions, and improvements to the physical plant. The costs of operating and maintaining the physical plant are apportioned between the monastery and the school.

5.51

Note X: Related-Party Transactions

During the year ended March 31, 20X2, the entity paid $48,000 for legal services provided by a firm, one of the partners of which is the entity's president and a member of the [*Governing Board*]. In addition, the entity has notes receivable of $34,000 from [*Debtor*], nephew of [*Board Member*], chairperson of the [*Governing Board*].

5.52

Note X: Related Parties

Grants were awarded to the [*Other not-for-profit entity*] of $20,582,000 in 20X2 and $18,130,000 in 20X1. Certain directors of the foundation are also directors of this entity. Directors of the foundation are not permitted to vote on proposed grants to entities for which they serve as officers or directors.

5.53

Note X: Related Party Transactions

Members of the university's board of trustees and senior management may, from time to time, be associated, either directly or indirectly, with companies doing business with the university. For senior management, the university requires annual disclosure of significant financial interests in, or employment or consulting relationships with, entities doing business with the university. These annual disclosures cover both senior management and their immediate family members. When such relationships exist, measures are taken to appropriately manage the actual or perceived conflict in the best interests of the university. The university has a written conflict of interest policy that requires, among other things, that no member of the board of trustees can participate in any decision in which he or she (or an immediate family member) has a material financial interest. Each trustee is required to certify compliance with the conflict of interest policy on an annual basis and indicate whether the university does business with an entity in which a trustee has a material financial interest. When such relationships exist, measures are taken to mitigate any actual or perceived conflict, including requiring that such transactions be conducted at arm's length, for good and sufficient consideration, based on terms that are fair and reasonable to and for the benefit of the university, and are in accordance with applicable conflict of interest laws. No such associations are considered to be significant.

5.54

Note X: Conflict-of-Interest Policy

It is the policy of the Association that all officers, directors, and committee members shall avoid any conflict between their own individual interests and the interests of the association. Included among the association's board members and officers are volunteers from the financial, medical, and scientific community, who provide valuable assistance to the association in the development of policies and programs and in evaluating awards and grants. The association has a conflict-of-interest policy whereby board and committee members must advise the board of any direct or indirect interest in any transaction or relationship with the association and not participate in discussions and decisions regarding any action affecting their individual, professional, or business interests.

5.55

Note X: Agreement With [City]

Master Agreement—the building and land in which the [*Center*] (center) is located is owned by [*City*] (city) and leased to the entity. Thus, the building and underlying land are not assets of the entity and are not reflected in the financial statements. The entity operates the center under a year-to-year lease with the city. As part of this agreement, the entity is to make the premises available to the city, without charge, up to three times per calendar year.

Under the agreement, in place of cash rent for the use of the premises, the consideration to the city from the entity will be the continuous operation, development, and maintenance of the premises. The only additional consideration is the one-time payment to the city of the difference between the amount remaining to retire the original construction bonds and the amount in the [*Authority*] reserve of $46,591. This amount, which was included in accrued expenses at June 30, 20X2, was paid in July 20X2.

[*Note: If the cost of continuous operation, development, and maintenance of the premises is materially less than the fair rental value of the premises, the entity would need to recognize the additional amount up to fair rental value as revenue and expense.*]

Mergers and Spinoffs

5.56

See FASB ASC 958-805 for additional guidance; see also paragraphs 1.15–.18 of the AICPA Audit and Accounting Guide *Not-for-Profit Entities* for a discussion on grandfathered accounting standards and the use of the pooling method by not-for-profits.

5.57

Note X: Change in Reporting Entity [Two-Year Report; August 31 Year End]

The financial statement presentation of the [*Entity*] was changed in 20X2 to include the accounts of [*Affiliate*]. The 20X1 financial statements have been restated to reflect this change. The restatement increased the previously reported net assets as of September 1, 20X0 and 20X1, by $1,433,958 and $1,502,774, respectively, and decreased the previously reported 20X1 excess of revenues over expenses by $68,235.

5.58

Note X: Merger [Two-Year Report; December 31 Year End]

On November 8, 20X2, a merger of [*Entity*] and [*Merged Entity*] was consummated by votes of the respective boards of directors. The merger was accounted for as a "pooling of interests." The accompanying financial statements reflect the combined assets, liabilities, and net assets of the two entities at December 31, 20X2, and the support, revenue, expenses, and changes in net assets and functional expenses for the entire year 20X2. The effect of the merger on net assets and on the change in net assets for 20X2 and as previously reported for 20X1 was as follows:

	20X2	*20X1*
Net assets, beginning of year, as previously reported	$1,756	$1,556
Adjustment for effect of merger	224	213
Net assets, as restated	1,980	1,769
Change in net assets for the year—increase (decrease)	$ 32	$ (47)

5.59

Note X: Merger

In 20X2, the [*Merged Entity*] merged with the [*Entity*] pursuant to a reorganization agreement dated December 10, 20X1. All assets and liabilities of [*Merged Entity*] at the time of the merger were transferred to the [*Entity*]. The excess of assets over liabilities of $59,000,000 has been recorded as contribution revenue in the statement of activities. [*Merged Entity*] operates as an independent center under the cognizance of the [*Department*] within the [*Entity*].

5.60

Note X: Spinoff of Affiliate [One-Year Report; June 30, 20X2 Year End]

The board of trustees of [*Entity*] adopted a resolution on April 22, 20X0, authorizing the [*Affiliated Entity*] to pursue a plan for separate incorporation. [*Affiliate*] was officially incorporated as a separate entity to begin operations on July 1, 20X1. The separate incorporation led to the transfer after June 30, 20X1, of all the assets that the [*Entity*] held for the use of the [*Affiliate*]. These assets had a net book value of $7,300,762.

[*The financial statements for the year 20X2 showed no amounts related to the affiliate because the opening net assets balance was restated for the effect of the change in reporting entity. FASB ASC 250-10-45-21 states that when an accounting change results in financial statements that are, in effect, the statements of a different reporting entity, the change shall be retrospectively applied to the financial statements of all prior periods presented to show financial information for the new reporting entity for those periods.*]

Summarized Financial Data for a Component of the Entity

5.61

Note X: [University] *Health System—Health Services Component*

The university trustees formed the [*University*] Health Systems in June 20W8. The health system operates an integrated system, which delivers education, research, and patient care. The Health Services Component comprises the hospital of the [*University*], clinical practices of the [*University*], clinical care associates, [*Physician Services, Inc.*] and [*Medical Center of the University*] Health System, which was created as a result of the merger on July 1, 20X1. The [*University*] Health Systems and the health services component are included in the financial statements of the university.

Throughout the year, certain transactions are conducted between the health services component and the university. The effect of these transactions (primarily interentity billings for allocations of common costs and certain purchased services) is included in the financial information of the health services component.

The health services component makes transfers from their operations that further the research and educational activities of the school of medicine. These activities are integral to the overall mission of the health system, and the effect of the transfers is reflected in the health services corporation net assets.

Summarized financial information for the health services component as of June 30, 20X2, prior to elimination for transactions between the health services component and other entities of the university is as follows:

Net patient service revenue	$ 917,535
Other revenues	52,636
Total expenses	(942,850)
Excess of revenues over expenses from operations	27,321
Nonoperating gains, net	47,987
Excess of revenues over expenses	$ 75,308
Total current assets	327,262
Investments and assets whose use is limited (including board-designated funds of $464,618 and trustee-held funds of $172,576)	793,923
Property, plant, and equipment, net	533,015
Other assets	93,219
Total assets	$1,747,419
Total current liabilities	$ 238,302
Long-term debt, net of current portion	651,405
Other liabilities	276,420
Total liabilities	1,166,127
Net assets	
Unrestricted	466,760
Temporarily restricted	81,562
Permanently restricted	32,970
Total net assets	581,292
Total liabilities and net assets	$1,747,419

5.62

Note X: Blood Services Component—Unrestricted, Designated Net Assets

The following is a summary of unrestricted operations and changes in net assets of the Blood Services component of the entity for the years ended June 30, 20X2 and 20X1, including the operations and changes in net assets of the regional blood services and national sector.

		For the Year Ended June 30	
		20X2	*20X1*
Revenues			
Blood Services processing		$600,878	$518,084
Investment income		5,491	5,686
Other income		20,313	11,777
Total revenues		626,682	535,547
Expenses			
Blood Services		618,144	531,592
Excess of revenues over expenses before property and equipment transactions		8,538	3,955
Loss from sales of property		(26,229)	(24,645)
Change in Net Assets, Applied to:			
Decrease in designated balances approved by board action for:			
Replacement and improvement of buildings and equipment	$(3,954)		
Other specific purposes	(9,559)		
Net operating assets available for remaining operations	(4,178)	(17,691)	(20,690)
Net assets, beginning of year		188,424	209,114
Net assets, end of year		$170,733	$188,424

The following is a statement of Blood Services unrestricted net assets at June 30, 20X2 and 20X1 including the financial position of the regional blood services and national sector.

	June 30	
	20X2	*20X1*
Assets		
Cash and time deposits	$ 10,504	$ 11,836
Investments	59,195	80,141
Receivables	89,957	69,516
Inventories	85,071	77,031
Other assets	3,364	2,326
Total assets	248,091	240,850
Liabilities		
Accounts payable and accrued liabilities	45,510	38,247
Notes payable	1,180	9,272
Due to unconsolidated affiliates	30,668	4,907
Total liabilities	77,358	52,426
Net assets	$170,733	$188,424
Net assets—as designated:		
Replacement and improvements of buildings and equipment	$ 23,576	$ 27,530
Other specific purposes	37,699	47,258
Net assets required for operations	109,458	113,636
Net assets as above	$170,733	$188,424

USE OF ESTIMATES

5.63

See FASB ASC 275-10-50 for further guidance.

5.64

Note X: Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities; the disclosure of contingent assets and liabilities at the date of the financial statements; and the reported amounts of revenues and expenses during the relevant period. Actual results could differ from the estimates.

At June 30, 20X2, reserves had been established for uncollectible accounts, student loans, and contributions receivable. These reserves were estimated based on historical collection and allowance practices as well as on management's evaluation of current trends. The reserves for self-insurance and postretirement medical and life insurance benefits were based on actuarial studies. The university believes that the methods and assumptions used in computing these liabilities are appropriate.

SUBSEQUENT EVENTS

5.65

Additional guidance on this topic can be found in FASB ASC 855, *Subsequent Events.* As noted in FASB ASC 855-10-25-1, an entity that is either (*a*) an SEC filer or (*b*) a conduit bond obligor for conduit debt securities that are traded in a public market, should evaluate subsequent events through the date that the financial statements are issued. All other entities should evaluate subsequent events through the date the financial statements are available to be issued. In addition, FASB ASC 855-10-50-1 requires that entities that are not SEC filers should disclose the date through which subsequent events have been evaluated and whether that date is the date that financial statements were issued or the date the financial statements were available to be issued.

5.66

Note X: Subsequent Events

The [*Museum*] evaluated its June 30, 20X2, consolidated financial statements for subsequent events through October 30, 20X3, the date the consolidated financial statements were available to be issued. Except as disclosed in the following text, the [*Museum*] is not aware of any subsequent events that would require recognition or disclosure in the accompanying consolidated financial statements.

In July 20X2, the trust issued $18,000,000 Series 20X2A bonds on behalf of the [*Museum*] for the purpose of refinancing the Series 19Y3A bonds and terminating the [*Museum's*] interest rate swap with [*Financial Institution*]. The bonds were issued at a premium of $1,700,000, resulting in total proceeds of $19,700,000. A portion of the proceeds of the Series 20X2A bonds was used to establish an escrow account in the amount of $18,500,000. The balance of the bond proceeds was used to fund a swap termination fee to [*Financial Institution*] and to pay related bond issuance costs.

A portion of the escrow account was used to redeem $12,000,000 of the Series 19Y3A bonds and to pay accrued interest on these bonds from the last interest payment date until the redemption date, and a portion, together with interest earnings thereon, will be used to redeem the balance of remaining Series 19Y3A bonds in October 20X3, and to pay interest on these bonds from the last interest payment date until the October redemption date.

5.67

Note X: Subsequent Events

The entity evaluated subsequent events through December 15, 20X3, which is the date the financial statements were available to be issued. No subsequent events were identified that required adjustment to or disclosure within the financial statements.

5.68

Note X: Subsequent Events

The university evaluated subsequent events for the period from August 31, 20X2 through December 14, 20X3, the date the financial statements were issued.

COMPARATIVE PRIOR-PERIOD INFORMATION

5.69

See paragraphs 3.30–.31 of the AICPA Audit and Accounting Guide *Not-for-Profit Entities* for further guidance.

5.70

Note X: Prior-Period Information

The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the [*Entity's*] financial statements for the year ended June 30, 20X1, from which the summarized information was derived.

Certain prior-year amounts have been reclassified to conform to the current year's financial statement presentation.

FOREIGN OPERATIONS

5.71

See also FASB ASC 830-30 for further guidance.

5.72

Note X: Foreign Currency Translation

Substantially all assets and liabilities of the Venice operations are translated at year-end exchange rates; support, revenues, and expenses are translated at the average exchange rates during the year. Translation adjustments for such assets and liabilities are accumulated separately in unrestricted net assets, and the accumulated unrealized loss was $57,514 as of December 31, 20X2 (included with unrestricted operating net assets). Gains and losses from foreign currency translation for the period are included in the statement of activities.

5.73

Note X: Foreign Operations

In connection with its worldwide ministry, RWT maintains facilities in various countries outside the United States. As of December 31, 20X2 and 20X1, respectively, current assets in other countries, including cash, securities, receivables, prepaid expenses, and inventories totaled $2,323,787 and $1,947,363; property and equipment, net of accumulated depreciation, amounted to $5,752,089 and $5,372,692; and liabilities in other countries were $2,961,904 and $2,476,411. Total overseas support and revenues received from foreign sources amounted to $8,385,524 and $8,958,820 for the years ended December 31, 20X2 and 20X1, respectively.

Account balances relating to foreign operations are reflected in the financial statements in United States dollars.

ACCOUNTING CHANGES

5.74

Additional guidance on this subject can be found in FASB ASC 250-10. Accounting changes made prospectively are reported in the statement of activities for the year of the change. An example of this presentation is in the sample statement of activity for the [*Disease*] Association in section 2 of this publication.

5.75

Accounting changes made retrospectively require restatement of certain beginning-of-the-year amounts and, if comparative prior-period statements are presented, prior-year amounts. The reconciliation of these amounts, as previously reported, may be shown either on the face of the statement of activity or in a note. An example of such a note follows.

5.76

Observe that this note is taken from an entity that presents a one-year single-column statement of activity, showing the change in net assets by class, but only total net assets as of the beginning of the prior year. If the statement of activity were comparative, then the net asset number to be restated would be the beginning of the prior year (January 1, 20X1) amount.

5.77

Note X: Change in Accounting

In 20X2, the [*Entity*] changed its method of accounting for [*item or transaction*] to adopt the provisions of [*newly-issued FASB Statement No. XXX*]. [*Describe new method of accounting.*]

This change resulted in the following restatement of the 20X1 financial statements:

	[Balance Sheet Item]	Change in Unrestricted Net Assets	Ending Unrestricted Net Assets
December 31, 20X1, balances as previously reported	$ 766,808	($946,487)	$2,071, 516
Effect of change in accounting for. . . .	(580,286)	37,441	580,286
Balances as restated	$ 186,522	($909,046)	$2,651,802

5.78

Note X: Change in Accounting

In 20X2, the university adopted [*New Standard*]. The incremental effect of adopting [*New Standard*] is as follows, in thousands of dollars:

	Before Application	Pension Plan	Post Retirement Medical	After Application
Consolidated financial statements:				
Prepaid expenses and other assets	$ 50,000	$35,000	$ —	$ 85,000
Total assets	26,000,000	35,000	—	26,035,000
Accrued postretirement benefit costs	82,000	—	128,000	210,000
Total liabilities	3,800,000	—	128,000	3,928,000
Total net assets	22,200,000	35,000	(128,000)	22,107,000
Change in net assets	3,650,000	35,000	(128,000)	3,557,000
Cumulative effect of change in accounting principle:				
Unrecognized net actuarial gain (loss)	$ —	$43,000	$ (63,500)	$ (20,500)
Unrecognized prior service cost	—	(8,000)	(64,500)	(72,500)
	$ —	$35,000	$(128,000)	$ (93,000)

ILLUSTRATIVE MANAGEMENT STATEMENT OF RESPONSIBILITY

5.79

Statements of responsibility are not technically part of the financial statements themselves. However, when presented, they accompany and refer to the statements. The following is an example of such a statement.

5.80

Management Responsibility for Financial Statements

The financial statements on the [*accompanying*] pages have been prepared in conformity with generally accepted accounting principles applicable to [*type of entity*]. The management of [*Entity*] is responsible for the integrity and objectivity of these financial statements.

In accumulating and controlling financial data, management maintains a highly developed system of internal accounting controls. Management believes that effective internal controls are maintained by the establishment and communication of accounting and business policies by the selection and training of qualified personnel and by programs of internal audits to give reasonable assurance, at reasonable cost, that the entity's assets are protected, and that transactions and events are recorded properly.

The accompanying financial statements have been audited by the entity's independent auditors, [*Firm*]. Their report expresses an informed judgment about whether the financial statements, considered in their entirety, present fairly in conformity with generally accepted accounting principles, the entity's financial position, changes in net assets, and cash flows. The independent auditors' opinion is based on audit procedures described in their report, which includes obtaining an understanding of systems, procedures, and internal accounting controls, and performing tests and other auditing procedures to provide reasonable assurance that the financial statements neither are materially misleading nor contain material errors. Although the independent auditors test procedures and controls, it is neither practicable nor necessary for them to scrutinize large portions of transactions.

The [*Governing Board*], through its audit committee comprising members not employed by the entity, is responsible for engaging the independent auditors and meeting with management, internal auditors, and the independent auditors to independently assess whether each is carrying out its responsibilities, and to discuss auditing, internal control, and financial reporting matters. Both the internal auditors and the independent auditors have full and free access to the audit committee. Both meet with the audit committee at least annually, with and without each other, and with and without the presence of management representatives.

[*Signed*]

______________________________	______________________
[*Vice President for Financial Affairs*]	[*Controller*]

5.81

In addition, management may wish to include in the notes to the financial statements language similar to the following.

5.82

Note X: Entity and Accounting Policy **[Portion of Longer Note]**

The entity maintains a system of internal controls designed to provide reasonable assurance that

1. transactions are executed in accordance with management's general or specific authorization;
2. transactions are recorded as necessary
   a. to permit preparation of financial statements in conformity with generally accepted accounting principles [*or other basis, if used*], and
   b. to maintain accountability for assets;
3. access to assets is permitted only in accordance with management's general or specific authorization; and
4. the recorded accountability for assets is compared with the existing assets at reasonable intervals, and appropriate action is taken with respect to any differences.

SECTION 6: DISCLOSURES RELATED PRIMARILY TO THE STATEMENT OF FINANCIAL POSITION

6.01

Note that these sample notes are not necessarily complete for any given entity's circumstances.

6.02

See also section 7 for notes describing revenue and expense amounts, many of which have balance sheet effects.

INVESTMENTS

6.03

See paragraphs 16–21of Financial Accounting Standards Board (FASB) *Accounting Standards Codification* (ASC) 958-205-45 and paragraph 8.21 of the AICPA Audit and Accounting Guide *Not-for-Profit Entities* (the guide) for a discussion of investment gains. Note that individual state laws should also be consulted.

6.04

Note X: Investments

Investment objectives and policies are established by the museum's investment committee of the [*Board*] and are implemented by external investment managers selected and monitored by the investment committee and staff of the museum.

Long-term investments consisted of the following at June 30, 20X2 and 20X1:

	20X2		*20X1*	
	Cost	*Fair Value*	*Cost*	*Fair Value*
Cash equivalents*	$ 68,060,109	$ 68,062,024	$ 45,567,780	$ 45,259,026
Accrued interest and dividends receivable	57,078	57,078	675,867	686,608
U.S. common and preferred stocks	60,971,372	53,517,938	113,971,704	120,020,144
Foreign common and preferred stocks, including American Depository Receipts (ADRs)	95,792,933	85,649,111	92,864,429	107,860,576
Fixed income	—	—	49,715,629	49,886,342
Alternative investments	223,253,532	260,750,835	195,458,783	278,445,440
Pooled endowment	448,135,024	468,036,986	498,254,192	602,158,136
Investments restricted for plant	1,500,000	1,500,000	1,500,000	1,500,000
Split-interest agreements and perpetual trusts	7,522,213	6,419,292	7,121,696	6,647,990
Long-term investments	$457,157,237	$475,956,278	$506,875,888	$610,306,126

* Includes pending trade receivables and (payables) of $244,379 and $(129,669) and $31,737,113 and $(31,965,004) at June 30, 20X2 and 20X1, respectively.

Included in the preceding 20X1 chart , certain U.S. and foreign stocks totaling $21,657,161 at fair value have been reclassified to alternative investments to conform with the 20X2 presentation.

Alternative investments represent limited partnership and similar interests held by the museum in funds that invest in public and private securities and follow a variety of investment strategies. Terms and conditions of these investments, including liquidity provisions, are different for each fund. The museum believes that the carrying amount of its alternative investments was a reasonable estimate of the fair value of such investments at June 30, 20X2 and 20X1. As is typical of investment portfolios of similar types of institutions, alternative investments are not readily marketable, the estimated value is subject to uncertainty and, therefore, may differ from the value that would have been used had a ready market for such investments existed.

The museum has commitments to invest additional amounts in existing limited partnership and similar interests of approximately $22,900,000 as of June 30, 20X2, which are expected to be satisfied over the next 3–5 years.

The following table summarizes the museum's alternative investments at June 30, 20X2 and 20X1:

	20X2		*20X1*	
Alternative Investment Strategy	*Number of Funds*	*Fair Value*	*Number of Funds*	*Fair Value*
Marketable Alternative Assets:				
Fund of funds	2	$ 33,493,588	1	$ 27,190,731
Equity long/short	8	67,096,189	8	79,885,433
Multistrategy	3	21,697,773	3	24,930,957
Relative value	2	14,955,559	2	14,056,889
Event-driven/distressed/high yield	4	49,944,565	3	39,966,675
Inflation hedging assets	1	12,908,694	1	22,630,292
Total marketable alternative assets	20	200,096,368	18	208,660,977
Nonmarketable Alternative Assets:				
Fund of funds	1	426,615	1	1,243,961
Buyouts and growth capital	15	23,740,684	15	30,820,787
Venture capital	9	11,742,280	9	14,423,580
Distressed	5	7,980,119	5	4,819,063
Private/mezzanine debt	2	1,541,004	3	2,042,227
Real assets	4	11,918,435	4	12,050,683
Secondary funds	3	3,305,330	3	4,384,162
Total nonmarketable alternative assets	39	60,654,467	40	69,784,463
Total alternative investments	59	$260,750,835	58	$278,445,440

Derivative financial instruments, primarily futures contracts, options, and credit default swaps, are used by certain of the museum's investment managers to manage exposure to market risks resulting from fluctuations in interest rates and credit risk. At June 30, 20X2 and 20X1, the museum's fixed income manager held futures contracts with a notional amount of $0 and $48,829,000, respectively, in long contracts; $0 and $8,909,000, respectively, in short contracts; long options with a notional amount of $0 and $71,043,000, respectively; long credit default swaps with a notional amount of $0 and $20,063,000, respectively, and short credit default swaps of $0 and $20,063,000, respectively. Realized and unrealized (losses) gains on these instruments were ($8,385) and ($275,826) in 20X2 and 20X1, respectively, and are recognized in the accompanying consolidated statements of activities. Additionally, certain of the museum's alternate investment managers utilize derivative financial instruments as an investment management tool to help manage exposure to market risks.

The museum's investment portfolio is exposed to various risks, such as interest rate, market risk, and credit risk. Because of the level of risk associated with such investments, changes in their values will occur, and such changes could materially affect the amounts reported in the museum's consolidated financial statements.

The following table summarizes investments by levels as prescribed in FASB ASC 820, *Fair Value Measurements and Disclosures*, as of June 30, 20X2:

	Level 1	*Level 2*	*Level 3*	*Total*
Cash equivalents	$ 67,951,805	$ —	$ —	$ 67,951,805
U.S. common and preferred stocks	55,013,447	—	—	55,013,447
Foreign common and preferred stocks, including ADR's	25,238,565	60,410,546	—	85,649,111
Marketable alternative investments	—	27,534,876	172,561,492	200,096,368
Nonmarketable alternative investments	—	—	60,654,467	60,654,467
Split-interest agreements and perpetual trusts	—	6,419,292	—	6,419,292
Total	$148,203,817	$94,364,714	$233,215,959	$475,784,490

Excluded from the summary of investments under FASB ASC 820, but included in the museum's long-term investments, is pending trade receivables and payables and accrued interest and dividends receivable.

The following table summarizes the changes in fair values associated with FASB ASC 820 Level 3 assets:

	Level 3
Balance as of June 30, 20X1	$243,899,954
Purchases, net	26,874,906
Unrealized and realized losses, net	(37,558,901)
Balance as of June 30, 20X2	$233,215,959

The losses shown in the preceding table are reflected in the accompanying 20X2 consolidated statement of activities.

The museum's current endowment spending policy, as authorized by the museum's board of trustees, is to distribute an amount equal to 5 percent of the average of the estimated fair value of the total pooled endowment for the 12 preceding quarters, calculated annually as of March 31, to be distributed in the following fiscal year primarily to support museum operations. Distributions are allocated among funds on a unit basis.

The following table presents a summary of investment returns, net of investment return designated for operations, pursuant to the museum's endowment spending policy, for the years ended June 30, 20X2 and 20X1:

	20X2	*20X1*
Interest and dividends	$ 5,036,459	$ 7,545,946
Realized (losses) gains	(32,538,141)	39,525,391
Unrealized (losses)*	(85,104,904)	(56,457,118)
Total (loss) on investments before investment expenses	(112,606,586)	(9,385,781)
Investment expenses	(2,238,079)	(2,973,379)
Total (loss) on investments after investment expenses	(114,844,665)	(12,359,160)
Less: distribution from endowment to operations and plant pursuant to spending policy**	(28,813,204)	(24,669,333)
Investment (loss), net of amounts designated for operations	$(143,657,869)	$(37,028,493)

* Included in unrealized (losses) is the change in value of split-interest agreements and perpetual trusts of ($1,102,921) and ($473,706) in 20X2 and 20X1, respectively.

** Included in plant contributions, grants, and miscellaneous income is $884,509 and $820,649 in 20X2 and 20X1, respectively, of investment return from endowment to operations and plant pursuant to the museum's spending policy.

Under the museum's charitable gift annuities program and for charitable remainder trusts in which the museum is the trustee, liabilities are recorded for the present value of the estimated future payments expected to be made to the donors or other life beneficiaries, or both. Upon termination of a life interest, the share of the corpus attributable to the life interest holder becomes available to the museum, if any. Changes in the life expectancy of the donor or beneficiary, amortization of the discount, and other changes in the estimates of future payments are recognized annually by the museum based on actuarially determined valuations. The discount rates used to value split-interest agreements at June 30, 20X2 and 20X1, ranged from 2.4 percent to 8.2 percent.

Contribution revenue is recognized at the date these split-interest agreements are established.

6.05

Note X: Investments

At September 30, 20X2 and 20X1, investments consisted of the following:

	20X2	*20X1*
U.S. government and other debt obligations	$13,412,581	$16,100,188
Marketable equity securities	24,047,805	23,440,237
Totals	$37,460,386	$39,540,425

Investment income for the years ended September 30, 20X2 and 20X1, consisted of the following:

	20X2	*20X1*
Interest and dividends	$ 1,133,024	$ 1,603,376
Net realized (losses) gains	(2,249,233)	572,708
Net unrealized gains (losses)	1,692,281	(11,565,552)
Annuity income	298,292	158,887
Management fees	(120,589)	(155,403)
Total	$ 753,775	$ (9,385,984)

Investments totaling $104,980 and $105,583 as of September 30, 20X2 and 20X1, respectively, are held on behalf of the entity's chapters. These amounts are included in "Amounts due to chapters" in the consolidated statements of financial position.

Dividends, realized and unrealized gains and losses, and substantially all interest income are not used in operations and, therefore, are reported in the consolidated statements of activities as investment income from nonoperating activities unless specifically approved by the [*Board*].

The entity's investments are subject to various risks, such as interest rate, credit, and overall market volatility risks. Further, due to the level of risk associated with these instruments, it is reasonably possible that changes in the values of these instruments will occur in the near term, and such changes could materially affect the amounts reported in the consolidated statements of activities.

6.06

Note X: Marketable Securities and Other Investments

Marketable securities held as of December 31, 20X2 and 20X1, are as follows:

	20X2		*20X1*	
	Fair Value	*Cost*	*Fair Value*	*Cost*
Domestic equity portfolio	$1,455,185	$1,116,867	$1,092,300	$ 825,377
Foreign stock portfolio	502,760	498,026	535,332	508,406
Fixed income portfolio	814,485	789,469	718,488	715,574
Total	$2,772,430	$2,404,362	$2,346,120	$2,049,357

The entity's investment strategy incorporates certain financial instruments that involve, to varying degrees, elements of market risk and credit risk in excess of the amounts recorded in the financial statements. These instruments include securities sold but not yet purchased, loaned securities, and forward foreign currency contracts.

Securities sold but not yet purchased amounted to $78.7 and $61.2 million at December 31, 20X2 and 20X1. These securities have market risk to the extent that the entity, in satisfying its obligation, may have to purchase securities at a higher value than recorded. The obligation to purchase securities is recorded as a liability equal to the amount of the sales proceeds, adjusted to fair value of the securities at the balance sheet date. Collateral in the form of $82.8 and $65.1 million of owned domestic securities, as well as $78.5 and $60.3 million cash collateral, is held by a third party at December 31, 20X2 and 20X1, respectively.

Through a securities lending program, managed by its investment custodians, the entity loans certain marketable securities included in its investment portfolio. At December 31, 20X2 and 20X1, the fair value of securities loaned was $398.9 million and $283.1 million, respectively. The custodians' loan agreements require the borrowers to maintain collateral equal to 100 percent to 102 percent of the fair value of the securities loaned. This collateral, in the form of cash, U.S. Treasury Bills, or guaranteed letters of credit, is revalued on a daily basis.

The entity enters into forward contracts in order to manage its foreign currency exchange risk. At December 31, 20X2 and 20X1, the foundation had open commitments with a fair value of $231.3 million and $33.3 million, respectively, which approximate contract values. Such contracts involve, to varying degrees, risk of loss arising from the possible inability of the counterparties to meet the terms of the contracts. These investments are recorded as marketable securities included in the foreign stock portfolio.

Private equity investments held as of December 31, 20X2 and 20X1, are as follows:

	Fair Value	*Cost*
20X2	$245,381	$199,572
20X1	214,867	202,421

The entity uses a number of outside parties in the management of its marketable securities and private equity investment portfolios. Fees of $11.9 million and $8.0 million related to these services are included in the statements of operations as expenses for 20X2 and 20X1, respectively.

Real estate investments, which are located primarily in Florida and New York, as of December 31, 20X2 and 20X1, are as follows:

	Appraised Value	*Acquisition Value*
20X2	$527,977	$440,778
20X1	641,336	589,805

6.07

Note X: Program-Related Investments

Notes receivable consist primarily of loans made to nonprofit entities as a means of assisting them in achieving charitable objectives, such as the preservation of open space and the development of low-income housing. Interest rates on the notes receivable at December 31, 20X2, range from 7 percent to 10 percent.

In accordance with Section 4944 of the Internal Revenue Code, the foundation is permitted to make investments that are related to its philanthropic programs. These investments are anticipated to have a less than fair value return. In the year of the investment, the foundation receives a credit toward its mandatory payout requirement. When the investment is recovered by the foundation, it is required to recognize a negative distribution.

6.08

Note X: Security Lending Agreements

At June 30, 20X2 and 20X1, the entity held $124,000,000 and $97,560,000, respectively, of short-term U.S. government obligations and cash as collateral deposits for certain securities loaned temporarily to brokers. These amounts are included as assets and liabilities in the entity's financial statements. Also, at June 30, 20X2 and 20X1, certain security loans were collateralized by lines of credit of $225,000 and $855,000, respectively. Securities on loan at June 30, 20X2 and 20X1, had estimated fair values of $119,000,000 and $98,500,000, respectively.

6.09

Note X: Endowment Investments [Portion of Longer Note]

A member of the foundation's board of directors is a general partner of the limited partnership. A member of the ballet's board of trustees is the CEO of the foundation's investment custodian.

Concentration of Risk

6.10

Note X: Investments

Published market quotations do not necessarily represent realizable values, particularly in which sizable holdings of a company's stock exist, as in the case of the foundation's holding of [*Company*] common stock, which has a fair value of $[*XXX*] at the balance sheet date.

6.11

Note X: Concentrations of Credit Risk

Financial instruments, which potentially subject the entity to concentrations of credit risk, consist of money market accounts and investment securities.

The entity places its temporary cash and money market accounts with creditworthy, high-quality financial institutions. A significant portion of the funds is not insured by the FDIC or related entity.

The entity has significant investments in stocks, bonds, and mutual funds and, therefore, is subject to concentrations of credit risk. Investments are made by investment managers engaged by the entity, and the investments are monitored for the entity by an investment advisor. Although the fair value of investments is subject to fluctuations on a year-to-year basis, management believes the investment policy is prudent for the long-term welfare of the entity and its beneficiaries.

6.12

Note X: Concentrations of Credit Risk

Financial instruments, which potentially subject the entity to concentrations of credit risk, consist principally of cash. The entity maintains its cash in various bank deposit accounts which, at times, may exceed federally insured limits. The entity has not experienced any losses in such accounts.

6.13

Note X: Concentrations of Credit Risk

Certain financial instruments potentially subject the entity to concentrations of credit risk. These financial instruments consist primarily of cash and cash equivalents and receivables. The entity places its cash and cash equivalents with high credit quality financial institutions. Concentrations of credit risk with respect to receivables are generally diversified due to the large number of entities and individuals composing the entity's program and donor base. The entity performs ongoing credit evaluations and writes off uncollectible amounts as they become known.

6.14

Note X: Credit Risk

At December 31, 20X2, the entity had deposits in a single financial institution totaling approximately $632,000 in excess of federal depository insurance limits.

6.15

Note X: Concentration of Revenue Sources

Approximately 24 percent of the entity's total support and revenues is provided by one contributor.

Disclosures Related to Derivatives

6.16

The following examples are adapted from financial statements of major educational institutions, which are the primary users of derivatives in the not-for-profit world. Smaller entities that use derivatives may not need such extensive disclosures. Specific information about derivatives is normally not shown separately in the basic financial statements because assets are included within the investment caption, and gains and losses within the investment return caption.

6.17

Enhanced disclosures requirements for derivatives are included in FASB ASC 815–10-50 and are effective for fiscal years beginning after November 15, 2008. For most not-for-profit entities, these disclosures are required beginning with their fiscal year 2010 statements. As such, examples of these enhanced disclosures are not included here.

6.18

Note X: Derivative Financial Instruments [Portion of Accounting Policies Note]

The university uses various financial instruments to hedge the risk of decline in fair value of certain equity securities. Equity options and equity-indexed options are used to reduce the primary market risk exposure (for example, equity price risk) of the hedged item in conjunction with the specific hedged strategy; if applicable, these have a reference index (for example, S&P 500) that is the same as, or is highly correlated with, the reference index of the hedged item. In addition, the university uses various financial instruments to hedge foreign currency liabilities. Similarly, the university also enters into swap agreements to hedge public real estate equity exposure and obtain S&P 500 equity index exposure, and it uses futures contracts on equity and bond indexes. Such instruments are not designated as hedges for accounting purposes and are recorded at fair value.

In fiscal year 20X2, the university entered into swap agreements to hedge future interest rate movements. In fiscal year 20X1, the university entered into a Euro-denominated foreign currency swap as a hedge against a portion of future capital commitments to foreign currencies. The university also added various interest rate options to hedge the overall portfolio and used an interest-rate swap agreement to hedge variable interest rate exposure.

6.19

Note X: Derivative Financial Instruments [Portion of Accounting Policies Note]

The university's external investment managers are authorized to use specified derivative financial instruments, including futures and forward currency contracts, in managing the assets under their control, subject to restrictions and limitations adopted by the board of trustees.

Futures contracts, which are commitments to buy or sell designated financial instruments at a future date for a specified price, may be used to adjust asset allocation, neutralize options in securities, or construct a more efficient portfolio. The managers have made limited use of exchange-traded interest rate futures contracts. Margin requirements are met in cash; however, the managers settle their positions on a net basis and, accordingly, the cash requirements are substantially less than the contract amounts. Forward currency contracts, which are agreements to exchange designated currencies at a future date at a specified rate, may be used to hedge currency exchange risk associated with investments in fixed-income securities denominated in foreign currencies and investments in equity securities traded in foreign markets. The managers settle these contracts on a net basis and, accordingly, the cash requirements are substantially less than the contract amounts. Changes in the fair value of the futures and forward currency contracts are included in investment income and were not significant in 20X2 and 20X1.

The university makes limited use of interest rate swap agreements to manage interest rate risk associated with variable rate debt. Under interest rate swap agreements, the university and the counterparties agree to exchange the difference between fixed rate and variable rate interest amounts calculated by reference to specified notional amounts during the agreement period. Notional principal amounts are used to express the volume of these transactions, but the cash requirements and amounts subject to credit risk are substantially less. Amounts receivable or payable under swap agreements are accounted for as adjustments to interest expense on the related debt.

6.20

Note X: Investments [Portion of Longer Note]

The university utilizes derivatives and other strategies to reduce investment risk, to serve as a temporary surrogate for investment in stocks and bonds, to manage interest exposure on the university's variable rate debt, or to achieve specific exposure to foreign currencies. The university's derivative positions include forward contracts, swaps, options, and futures contracts. The net unrealized depreciation on these derivatives was $25,634,000 and $25,805,000 at August 31, 20X2 and 20X1, respectively.

The university's derivative activities include both the purchase and sale of credit default swaps. *Credit default swaps* (CDSs) are contracts under which counterparties are provided protection against the risk of default on a set of debt obligations issued by specific companies (or group of companies combined in an index). The buyer of the CDSs will make payment to the seller and, in return, receives payment if the underlying instrument goes into default or is triggered by some other credit event. The university's CDS transactions include both single name entities as well as index CDSs. Under the index CDSs, the credit events that would trigger settlement of the credit default swap and require the university to remit payment are generally bankruptcy and failure to pay.

The following table summarizes certain information regarding protection sold through CDSs as of August 31, 20X2:

	Protection Sold Maximum Potential Payout/Notional Amount Years to Maturity					
Credit Ratings of the Reference Obligation[1]	*Less Than 1*	*1–3*	*3–5*	*Over 5*	*Total*	*Fair Value Asset/(Liability)*
Single name credit default swaps:						
A+	$—	$ —	$ —	$(2,300)	$ (2,300)	$(152)
A −	—	—	(400)	(6,400)	(6,800)	(205)
BBB+	—	(1,200)	—	—	(1,200)	(56)
Total single name credit default swaps	$—	$(1,200)	$ (400)	$(8,700)	$(10,300)	$(413)
Index credit default swaps[2]	—	—	(35,865)	—	(35,865)	751
Total credit default swaps sold	$—	$(1,200)	$(36,265)	$(8,700)	$(46,165)	$ 338

(1) The credit rating is according to Standard & Poor's and represents the current performance risk of the swap.
(2) Index credit default swaps are made up of approximately 125 North American investment grade entities with at least 80 percent of the included entities having a Standard & Poor's rating of BBB- or higher.

Foreign currency forward contracts, interest rate swaps, and stock lending and repurchase agreements necessarily involve counterparty credit risk. The university seeks to control this risk by entering into transactions with high-quality counterparties and through counterparty credit evaluations and approvals, counterparty credit limits, and exposure monitoring.

6.21

Note X: Investments [Portion of Longer Note]

The college's endowment investment portfolio includes derivative financial instruments that have been acquired to reduce overall portfolio risk by hedging exposure to certain assets held in the portfolio. The endowment also employs certain derivative financial instruments to replicate long or short positions more cost effectively than through purchases or sales of the underlying assets.

The college, from time to time, enters into foreign currency forward contracts to protect long-term investments denominated in foreign currency from currency risk. At June 30, 20X2 and 20X1, respectively, the college held forward contracts to buy foreign currencies in the amount of $34,950,000 and $17,300,560 and to sell foreign currencies in the amount of $11,500,000 and $23,980,000. The college has also recorded associated net unrealized losses of $2,300,000 and net unrealized gains of $6,107,000 on forward contracts held as of June 30, 20X2 and 20X1, respectively.

At June 30, 20X2, the college also held options and futures contracts principally as hedges against market concentration risks in certain segments of its investment portfolio. The college has recorded net unrealized gains of $450,000 and $2,466,870 as of June 30, 20X2 and 20X1, respectively, pertaining to options contracts held. The difference between the exercise price of open written options contracts and the estimated value of the related underlying securities resulted in a net short position of $650,000 and $237,000 at June 30, 20X2 and 20X1, respectively. The college is obligated to pledge to the appropriate broker cash or securities to be held as collateral, as determined by exchange margin requirements for futures contracts held. At June 30, 20X2 and 20X1, the fair value of the college's pledged collateral on futures contracts was $2,500,688 and $2,344,188, respectively. The difference between the estimated value of open futures contracts to sell and purchase securities was a net short position of $5,356,600 and a net long position of $2,322,766 as of June 30, 20X2 and 20X1, respectively.

6.22

Note X: Bonds and Notes Payable [Portion of Longer Note]

Interest Rate Swaps

The university has entered into various interest rate swap agreements to manage the interest cost and risk associated with its variable-rate debt portfolios. During fiscal year 20X2, [*University*] entered into an additional $244 million notional principal amounts of swap agreements. Under these agreements, the university pays fixed rates ranging from 4.3 percent to 6.2 percent, determined at inception, and receives the 3-month London Interbank Offered Rate on the respective notional principal amounts. The following schedule presents swap agreements in force related to this strategy at June 30, 20X2, in thousands of dollars:

			Net Interest Expense		
	Notional Amount	*Fair Value*	*20X2*	*20X1*	*Expiration Date*
Facilities	$295,000	$(10,556)	$8,332	$344	20X3–20X4
Student loan	10,000	(112)	45	32	20X3
	$305,000	$(10,668)	$8,377	$376	

These financial instruments involve counterparty credit exposure. The university's policy is to require collateral to the maximum extent possible under normal trading practices. The counterparties for these swap transactions are major financial institutions that meet the university's criteria for financial stability and creditworthiness.

6.23

Note X: Debt [Portion of Longer Note]

In April 20X1, the university entered into an interest rate swap agreement with a national bank to reduce its interest rate risk on a portion of its debt. The agreement extends through 20X6 and provides for the university to pay a fixed rate of 5.34 percent and receive a variable rate based on a notional principal amount of $34,300,000.

6.24

Note X: Derivative Financial Instruments

The entity entered into interest rate swap agreements with National Bank in order to convert the interest rates on four variable rate loans to fixed rates. Because these swap agreements do not qualify as hedging transactions, the change in value of the agreements is recognized currently as a gain. The gain in 20X2 was $135,256.

6.25

Note X: Interest Rate Swap

The university entered into an interest rate swap agreement to reduce economic risks associated with variability in cash outflows for interest required under provisions of variable rate bonds. Interest rate swaps are recognized as assets or liabilities at fair value. A liability of $272,500 was recognized as of June 30, 20X1. The swap was dissolved for a loss of $105,000 during 20X2. Realized gains and losses on interest rate swaps are classified as a component of operating income and presented as an adjustment to interest expense in the accompanying statement of operations. Unrealized changes in the fair value of interest rate swaps are recognized as a change in unrestricted net assets separate from excess of revenues over expenses.

Fair Value Measurements

6.26

FASB ASC 820, *Fair Value Measurements and Disclosures*, defines *fair value*, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. In January 2010, FASB issued Accounting Standards Update (ASU) No. 2010-06, *Fair Value Measurements and Disclosures (Topic 820): Improving Disclosures about Fair Value Measurements*, which requires additional disclosures and clarifies existing guidance for disclosures required by FASB ASC 820-10. The guidance in ASU No. 2010-06 is effective for interim and annual reporting periods beginning after December 15, 2009, except for the disclosures about purchases, sales, issuances, and settlements in the roll forward activity in Level 3 fair value measurements. Those disclosures are effective for fiscal years beginning after December 15, 2010. The following examples do not include the additional disclosures required by ASU 2010-06.

6.27

As a practical matter, many entities include the fair value disclosures in the Investment footnote because those financial instruments are the most likely to require additional disclosures as required by FASB ASC 820.

6.28

Note X: Fair Value Measurements

As indicated in note X, the entity adopted FASB ASC 820, *Fair Value Measurements and Disclosures,* in 20X2. There were no financial instruments for which a retrospective application of fair value measurement was required. Therefore, the effect of adopting the provisions of FASB ASC 820 is prospective from the beginning of the year.

As defined in FASB ASC 820, *fair value* is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (exit price). The entity utilizes market data or assumptions that market participants would use in pricing the asset or liability, including assumptions about risk and the risks inherent in the inputs to the valuation technique.

The entity's assessment of the significance of a particular input to the fair value measurements requires judgment and may affect the valuation of fair value of assets and liabilities and their placement within the fair value hierarchy levels.

FASB ASC 820 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value, maximizes the use of observable inputs, and minimizes the use of unobservable inputs by requiring that the observable inputs be used when available. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to measurements involving significant unobservable inputs (Level 3 measurements). The three levels of fair value hierarchy are as follows:

> *Level 1 inputs.* Valuation based on quoted prices in active markets for identical assets or liabilities that a reporting entity has the ability to access at the measurement date, and where transactions occur with sufficient frequency and volume to provide pricing information on an ongoing basis.
>
> *Level 2 inputs*. Valuation based on inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. Inputs include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets, or liabilities in markets that are not active, that is, markets in which there are few transactions, prices are not current, or prices vary substantially over time.
>
> *Level 3 inputs.* Valuation based on inputs that are unobservable for an asset or liability and should be used to measure fair value to the extent that observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset or liability at the measurement date. This input, therefore, reflects the entity's assumptions about what market participants would use in pricing the asset or liability developed based on the best information available in the circumstances.

Financial assets and liabilities carried at fair value measured on a recurring basis as of September 30, 20X2 are as follows:

	Level 1	*Level 2*	*Level 3*	*20X2 Totals*
Investments:				
U.S. government and other obligations	$12,413,436	$999,145	$—	$13,412,581
Marketable equity securities	24,047,805	—	—	24,047,805
Total investments	$36,461,241	$999,145	$—	$37,460,386

6.29

Note X: Fair Value Measurements

Assets and liabilities recorded at fair value in the statement of financial position are categorized based upon the level of judgment associated with the inputs used to measure their fair value. Level inputs are defined as follows:

Level 1. Unadjusted quoted prices in active markets for identical assets and liabilities.

Level 2. Observable inputs other than those included in Level 1, such as quoted market prices for similar assets or liabilities in active markets or quoted market prices for identical assets or liabilities in inactive markets.

Level 3. Unobservable inputs reflecting management's own assumptions about the inputs used in pricing the asset or liability. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair values requires significant management judgment or estimation.

Fair values of assets measured on a recurring basis at June 30, 20X2 are as follows:

	Level 3
June 30, 20X2:	
Noncurrent contributions receivable	$30,000
June 30, 20X1:	
Noncurrent contributions receivable	55,000

Noncurrent contributions are reflected at the present value of estimated future cash flows and a 2 percent discount rate (discounting to present value at June 30, 20X2 and 20X1 was disregarded due to the discount being insignificant).

Assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3 inputs) include contributions expected to be received in more than one year:

	2009	*2008*
Balance at beginning of year	$ 55,000	$ 87,125
Additions of long-term pledges	30,000	—
Contributions receivable, which became due within one year	(55,000)	(32,125)
Balance at end of year	$ 30,000	$ 55,000

6.30

Note X: Investments [Portion of Accounting Policies Note]

Assets and liabilities measured at fair value are based on one or more of three valuation techniques, which include the following:

- *Market approach*. Prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities.
- *Cost approach*. Amount that would be required to replace the service capacity of an asset (that is, replacement cost).

- *Income approach*. Techniques to convert future amounts to a single, present amount based on market expectations (including present value techniques, option-pricing models, and lattice models).

The fair value of publicly traded fixed income and equity securities is based upon quoted market prices and exchange rates, if applicable. The fair value of direct real estate investments is determined from periodic valuations prepared by independent appraisers.

Fair values for certain private equity, real asset (oil and gas, timber, and real estate), and absolute return investments held through limited partnerships or commingled funds are estimated by the respective external investment managers, including general partners, if market values are not readily ascertainable. These valuations necessarily involve assumptions and methods that are reviewed by the university's Investments Office.

6.31

Note X: Fair Value of Financial Instruments [Portion of Accounting Policies Note]

Due to the short-term nature of cash equivalents, receivables, prepaid expense and other assets, accounts payable, and notes payable, their fair value approximates carrying value.

6.32

Note X: Subsequent Event—Change in Fair Value

Subsequent to June 30, 20X2, volatility experienced in the financial markets has resulted in a significant decline in the fair value of certain investments. As of October 31, 20X2, the fair value of the investment portfolio declined by approximately $11,737,000 from June 30, 20X2.

Endowments and Investment Payout, Including the Total Return Concept

6.33

Paragraphs 13–35 of FASB ASC 958-205-45 describe the presentation of endowment funds in the financial statements. See also paragraphs 8.26–.29 of the AICPA Audit and Accounting Guide *Not-for-Profit Entities.*

6.34

Note X: Permanently Restricted Net Assets—Endowment

The entity's endowment consists of donor-restricted funds established to sustain future of programs. As required by generally accepted accounting principles (GAAP), net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law

The board of trustees of the entity has interpreted [*State's*] enacted Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the entity classifies as permanently restricted net assets (*a*) the original value of gifts donated to the permanent endowment, (*b*) the original value of subsequent gifts to the permanent endowment, and (*c*) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the entity in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the entity considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund
- The purposes of the entity and the donor-restricted endowment fund

- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of the entity
- The investment policies of the entity

Endowment net assets include only permanently restricted funds totaling $25,055 and $10,000 at June 30, 20X2 and 20X1, respectively.

Changes in endowment net assets for the year ended June 30, 20X2 and 20X1, are as follows:

	20X2	*20X1*
Endowment net assets—beginning of year	$10,000	$10,000
Contributions	15,055	—
Endowment net assets—end of year	$25,055	$10,000

As of June 30, 2009, the entity has not commenced spending of endowment funds, and policies for investment and appropriating for distribution have not been implemented because the funds have not reached the level desired to begin spending.

6.35

Note X: Endowment

Interpretation of Relevant Law

The society, and its certain divisions, are subject to an enacted version of UPMIFA, whereas the national home office, Puerto Rico, and certain other divisions remain subject to the Uniform Management of Institutional Funds Act (UMIFA) or other relevant law. The interpretation of relevant law among the entities of the society is discussed in the following text.

The society has interpreted UMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the society classifies as permanently restricted net assets (*a*) the original value of gifts to the permanent endowment, (*b*) the original value of subsequent gifts to the permanent endowment, and (*c*) accumulations of investment returns to the permanent endowment made in accordance with the direction of the applicable donor gift instrument, when applicable. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets to the extent the donor-restricted income earned on such endowments to a particular purpose or time, and in all other cases, is classified as unrestricted net assets. Such amounts recorded as temporarily restricted net assets are released from restriction when the donor-stipulated purpose has been fulfilled or the required time period has elapsed, or both.

The society has interpreted UPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the society classifies as permanently restricted net assets (*a*) the original value of gifts donated to the permanent endowment, (*b*) the original value of subsequent gifts to the permanent endowment, and (*c*) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the society in a manner consistent with the standard of prudence prescribed by UPMIFA.

The following represents the net asset classes of the society's endowment funds as well as the changes in endowments for the year ended August 31, 20X2.

Endowment Net Assets at the Beginning of Fiscal Year 20X2	*Preadoption of [New Standard] Balance*	*Postadoption of [New Standard] Balance*	*Reclassification Adjustment*
Permanently restricted	$66,060	$65,546	$ 514
Temporarily restricted	12,147	13,540	(1,393)
Unrestricted	4,274	3,395	879
Total	$82,481	$82,481	$ —

Changes in Endowments for the Year Ended August 31, 20X2	*Unrestricted*	*Temporarily Restricted*	*Permanently Restricted*	*Total*
Endowment net assets at August 31, 20X1	$ 3,395	$13,540	$65,546	$82,481
Investment income	399	1,508	—	1,907
Net depreciation (realized and unrealized)	(3,489)	(4,324)	(660)	(8,473)
Contributions	—	—	1,707	1,707
Revision of donor restrictions	(143)	(435)	578	—
Appropriation of endowment assets for expenditure	(70)	(1,225)	—	(1,295)
Endowment net assets at August 31, 20X2	$ 92	$ 9,064	$67,171	$76,327

	Unrestricted	*Temporarily Restricted*	*Permanently Restricted*	*Total*
Donor-restricted endowment funds	$(1,757)	$9,064	$67,171	$74,478
Board-designated endowment funds	1,849	—	—	1,849
Total funds	$ 92	$9,064	$67,171	$76,327

Funds With Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or relevant law requires the society to retain as a fund of perpetual duration. In accordance with U.S. GAAP, deficiencies of this nature would be reported in temporarily restricted net assets to the extent accumulated gains are available to absorb such loss, or otherwise unrestricted net assets. Deficiencies of this nature that are reported in unrestricted net assets were $3,024,000 as of August 31, 20X2. These deficiencies resulted from unfavorable market fluctuations that occurred after the investment of new contributions and continued appropriation for certain programs that was deemed prudent by the society. Subsequent gains that restore the fair value of the assets of the endowment fund up to the $3,024,000 in deficiencies will be classified as an increase in unrestricted net assets.

Return Objectives and Risk Parameters

The society has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Under this policy, as approved by the society, the endowment assets are invested in a manner that is intended to produce results that exceed the price and yield results of relevant market indexes while assuming a moderate level of investment risk.

Spending Policy

To the extent of a permanently restricted endowment's cumulative undistributed earnings, and unless the donor has specified otherwise, 4 percent to −5 percent (based on the policy of the respective division) of the fair value of an endowment is available for spending each year. In addition, the difference between the actual total return each year and the spending percentage is charged or credited to unrestricted or temporarily restricted net assets (depending on the donor's instructions regarding the use of investment income or relevant law). The society believes a spending policy is necessary to carry out the statutorily prescribed standard of ordinary business care and prudence and uses a spending rate of 4 percent to 5 percent in order to maintain the purchasing power of the endowment.

6.36

Note X: Endowment

The university classifies a substantial portion of its financial resources as endowment, which is invested to generate income to be used to support operating and strategic initiatives. These assets include pure endowment funds, endowed lands, term endowment funds, and funds functioning as endowment. Depending on the nature of the donor's stipulation, these resources are recorded as permanently restricted, temporarily restricted, or unrestricted net assets. Term endowments are similar to other endowment funds except that upon the passage of a stated period of time or the occurrence of a particular event, all or part of the principal may be expended. These resources are classified as temporarily restricted net assets. Funds functioning as endowment are university resources designated by the board as endowment and are invested for long-term appreciation and current income. These assets, however, remain available and may be spent at the board's discretion. Funds functioning as endowment are recorded as unrestricted net assets.

The university classifies as permanently restricted net assets (*a*) the original value of gifts donated to the permanent endowment, (*b*) the original value of subsequent gifts to the permanent endowment, and (*c*) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are authorized for expenditure. Net unrealized losses on permanently restricted endowment funds are classified as a reduction to unrestricted net assets until such time as the fair value of the fund equals or exceeds historic value. At August 31, 20X2, unrestricted net assets were reduced by $203,089,000 for such losses.

Endowment funds by net asset classification as of August 31, 20X2 are as follows:

	Unrestricted	*Temporarily Restricted*	*Permanently Restricted*	*Total*
Donor-restricted endowment funds	$ (203,089)	$3,917,921	$4,180,875	$ 7,895,707
Funds functioning as endowment	4,723,387	—	—	4,723,387
Total endowment funds	$4,520,298	$3,917,921	$4,180,875	$12,619,094

Most of the university's endowment is invested in its investment pool. The return objective for the investment pool is to generate optimal total return while maintaining an appropriate level of risk for the university. Investment returns are achieved through both capital appreciation (realized and unrealized gains) and current yield (interest and dividends). Portfolio asset allocation targets as well as expected risk, return, and correlation among the asset classes are reevaluated annually by the university and the board.

Through the combination of investment strategy and payout policy, the university is striving to provide a reasonably consistent payout from endowment to support operations while preserving the purchasing power of the endowment adjusted for inflation.

The board approves the amounts to be paid out annually from endowment funds invested in the investment pool. Consistent with UPMIFA, when determining the appropriate payout, the board considers the purposes of the university and the endowment, the duration and preservation of the endowment, general economic conditions, the possible effect of inflation or deflation, the expected return from income and the appreciation of investments, other resources of the university, and the university's investment policy.

In February 20X0, the board approved an increase in the targeted spending rate from 5 percent to 5.5 percent effective beginning in fiscal year 20X1. The sources of payout are earned income on endowment assets (interest, dividends, rents, and royalties), realized capital gains, and funds functioning as endowment, as needed.

In fiscal years 20X2 and 20X1, earned income and realized and previously reinvested gains on endowment funds were distributed for university operations, as follows:

	20X2	*20X1*
Earned income	$111,186	$176,072
Realized and previously reinvested gains	845,332	705,498
Approved payout	$956,518	$881,570

Changes in the university's endowment, excluding pledges, for the years ended August 31, 20X2 and 20X1, are as follows:

	20X2				
	Unrestricted	*Temporarily Restricted*	*Permanently Restricted*	*Total*	*20X1 Total*
Endowment, beginning of year	$12,929,342	$ 88,226	$4,196,805	$17,214,373	$17,164,836
Net asset reclassification based on adoption of [*New Standard*]	(6,333,634)	6,333,634	—	—	—
Endowment after reclassification	6,595,708	6,421,860	4,196,805	17,214,373	17,164,836
Investment returns:					
Earned income	111,186	—	—	111,186	176,072
Unrealized and realized gains (losses)	(1,429,929)	(1,905,295)	(246,805)	(3,582,029)	467,949
Total investment (losses) returns	(1,318,743)	(1,905,295)	(246,805)	(3,470,843)	644,021
Amounts distributed for operations	(353,084)	(603,434)	—	(956,518)	(881,570)
Gifts and pledge payments	11,841	2,238	141,280	155,359	188,283
Funds invested in endowment, net	82,739	(663)	80,792	162,868	118,331
Funds withdrawn from the endowment	(487,987)	—	—	(487,987)	(46,699)
Other	(10,176)	3,215	8,803	1,842	27,171
Net (decrease) increase in endowment	(2,075,410)	(2,503,939)	(15,930)	(4,595,279)	49,537
Endowment, end of year	$ 4,520,298	$ 3,917,921	$4,180,875	$12,619,094	$17,214,373

6.37

Note X: Components of Net Assets and Endowment

The following table presents the three categories of net assets by purpose as of June 30, 20X2. The amounts listed in the unrestricted column labeled, "Endowment Funds Principal," are those gifts received over the years that the university designated as funds functioning as endowment and invested with the endowment funds. A large component of temporarily restricted net assets is pledges, the majority of which will be reclassified to unrestricted net assets when cash is received.

	20X2				
Fund Category	*Unrestricted*	*Temporarily Restricted*	*Permanently Restricted*	*Total*	*20X1 Total*
Endowment Funds Principal					
General purpose	$ 594,998	$ 707,929	$ 214,524	$1,517,451	$ 1,929,726
Departments and research	325,179	562,495	383,533	1,271,207	1,597,782
Library	7,883	12,781	7,799	28,463	36,031
Salaries and wages	285,788	1,559,674	571,340	2,416,802	3,062,843
Graduate general	47,580	72,129	69,981	189,690	210,750
Graduate departments	55,309	171,312	159,681	386,302	478,012
Undergraduate	142,731	629,330	286,449	1,058,510	1,333,218
Prizes	4,780	15,278	17,167	37,225	47,583
Miscellaneous	668,552	127,935	33,694	830,181	1,056,514
Investment income held for distribution	246,190	—	—	246,190	316,328
Endowment funds before pledges	2,378,990	3,858,863	1,744,168	7,982,021	10,068,787
Pledges	—	—	169,784	169,784	165,713
Total endowment funds	2,378,990	3,858,863	1,913,952	8,151,805	10,234,500
Other Invested Funds					
Student loan funds	19,889	—	17,536	37,425	36,900
Building funds	58,258	147,623	—	205,881	185,771
Designated purposes:					
—Departments and research	258,747	—	—	258,747	246,194
—Other purposes	51,440	—	—	51,440	47,038
Reserve funds	98,316	—	—	98,316	3,777
Real estate gifts held for sale	7,908	—	—	7,908	7,653
Life income funds	6,179	39,273	53,960	99,412	122,457
Pledges	—	294,953	—	294,953	277,590
Other funds available for current expenses	254,780	60,303	—	315,083	1,154,847
Funds expended for educational plant	425,418	—	—	425,418	453,247
Total other funds	1,180,935	542,152	71,496	1,794,583	2,535,474
Total net assets at fair value	$3,559,925	$4,401,015	$1,985,448	$9,946,388	$12,769,974

The university's endowment consists of approximately 3,000 individual funds established for a variety of purposes and includes both donor-restricted endowment funds and funds designated by the board of trustees to function as endowments. As required by GAAP, net assets associated with endowment funds, including funds designated by the board of trustees to function as endowments, are classified and reported based on the existence or absence of donor imposed restrictions.

The board of trustees of the university has interpreted the [*State*] enacted version of UPMIFA as allowing the university to appropriate for expenditure or accumulate so much of an endowment fund as the university determines is prudent for the uses, benefits, purposes, and duration for which the endowment fund is established, subject to the intent of the donor as expressed in the gift instrument. Unless stated otherwise in the gift instrument, the assets in an endowment fund shall be donor-restricted assets until appropriated for expenditure by the board of trustees. As a result of this interpretation, the university has not changed the way permanently restricted net assets are classified. See note Y for further information on net asset classification. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the board of trustees considers the following factors in making a determination to appropriate or accumulate endowment funds:

- The duration and preservation of the fund
- The purposes of the university and the endowment fund
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of the university
- The investment policies of the university

Endowment Net Asset Composition by Type of Fund as of June 30, 20X2

	Unrestricted	*Temporarily Restricted*	*Permanently Restricted*	*Total*
Donor-restricted endowment funds	$ —	$3,858,863	$1,913,952	$5,772,815
Board-designated endowment funds	2,378,990	—	—	2,378,990
Total endowment funds	$2,378,990	$3,858,863	$1,913,952	$8,151,805

Changes in Endowment Net Assets for the Fiscal Year Ended June 30, 20X2

	Unrestricted	*Temporarily Restricted*	*Permanently Restricted*	*Total*
Endowment net assets, June 30, 20X1	$3,091,110	$ 5,320,317	$1,823,073	$10,234,500
Investment return:				
Investment income	21,970	48,094	4,046	74,110
Net depreciation (realized and unrealized)	(618,016)	(1,143,356)	(24,337)	(1,785,709)
Total investment return	(596,046)	(1,095,262)	(20,291)	(1,711,599)
Contributions	4,650	—	108,155	112,805
Appropriation of endowment assets for expenditure	(153,545)	(364,402)	—	(517,947)
Other changes:				
Underwater gain adjustment and funds held for reinvestment	(23,984)	23,984	4,587	4,587
Net asset reclassifications and transfers to create board-designated endowment funds	56,805	(25,774)	(1,572)	29,459
Endowment net assets, June 30, 20X2	$2,378,990	$ 3,858,863	$1,913,952	$ 8,151,805

Underwater Endowment Funds

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the value of the initial and subsequent donor gift amounts (underwater). When underwater endowment funds exist, they are classified as a reduction of unrestricted net assets. Total underwater endowment funds reported in unrestricted net assets were $24.3 million and $0.3 million as of June 30, 20X2 and 20X1, respectively. The underwater status of these funds resulted from unfavorable market fluctuations.

Investment and Spending Policies

The university maintains its investments primarily in two investment pools: Pool A, principally for endowment and funds functioning as endowment, and Pool C, principally for investment of current funds of the university's schools and departments and the university's operating funds. Pool A operates as a mutual fund with units purchased and redeemed based on the previous month's unit market value of Pool A. The total market value of Pool A was $8,143.7 million at June 30, 20X2 and $10,292.5 million in 20X1. The total value of Pool A includes Pool C investments of $323.7 million at June 30, 20X2 and $416.0 million in 20X1. Certain assets are also maintained in separately invested funds. Separately invested funds totaled $162.1 million as of June 30 2009, and $192.3 million in 2008.

The university has adopted endowment investment and spending policies designed to provide a predictable stream of funding to programs supported by its endowment while maintaining the purchasing power of endowment assets. Under this policy, the return objective for the endowment assets is to attain an average, annual, real total return of at least 6 percent over the long term. Real total return is the sum of capital appreciation (or depreciation) and current income adjusted for inflation by the Higher Education Price Index (HEPI). An additional investment goal is to maximize return relative to appropriate risk such that performance exceeds appropriate benchmark returns at the total pool, asset class, and individual manager levels.

To achieve its long-term rate of return objectives, the university relies on a total return strategy in which investment returns are realized through both capital appreciation (realized and unrealized gains) and current yield (interest and dividends). The university targets a diversified asset allocation that places greater emphasis on equity-based investments to achieve its long-term objectives within prudent risk constraints.

The executive committee of the corporation votes to distribute funds for operational support from general investments. In accordance with the university's spending policy, these distributions are funded from both investment income and market appreciation. In 20X2, the distribution rate was $69.21 per Pool A unit, up 30.6 percent from $53.00 in 20X1. The increase in the distribution per unit from 20X1 to 20X2 is the result of a planned increase consistent with the comprehensive financial framework developed in 20X1. The financial framework addressed a long-term structural imbalance in the funding of operations, bringing the university's operating revenues into alignment with planned operating expenses in 20X2, including adjusting the annual endowment spending.

In 20X2, the amount distributed for spending from Pool A and Pool C totaled $582.8 million, compared to $443.5 million distributed in the prior year. In 20X2, the distribution included $455.7 million from investment gains, or 78.2 percent of the total distributed to funds. In 20X1, the comparable amount distributed included $244.8 million, or 54.9 percent, from investment gains. During 20X2, distributions from separately invested funds were $3.3 million, compared to $3.9 million in 20X1. The income earned in Pool C, or currently invested funds, was fully distributed. In addition to the aforementioned distributions, there was also a special distribution of $24.0 million from gains in Pool C in 20X2 and $5.0 million in 20X1.

6.38

Note X: Endowment [Portion of a Larger Note]

The foundation has adopted investment and spending policies for endowment funds that attempt to provide a predictable stream of funding to programs supported by its endowment funds while seeking to maintain purchasing power of the endowment funds. Endowment funds include those assets of restricted funds that the foundation must hold in perpetuity or for a specific period(s) as well as board-designated funds. Under these policies, as approved by the board of trustees, the endowment funds are invested in a manner that is intended to produce a real return, net of inflation and investment management costs, of at least 5 percent over the long term. Actual returns in any given year may vary from this amount.

To satisfy its long-term rate-of-return objectives, the foundation relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The foundation targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term objective within prudent risk constraints.

The foundation has a policy of annually setting the total return payout rate. The policy specifies that the payout rate will not be more than 7 percent of the average principal for the three years ending the prior December 31. In establishing this policy, the foundation considers the long-term expected return on endowment assets and, as such, the payout rate may vary from year-to-year but never be greater than 7 percent. Accordingly, over the long term, the foundation expects the current spending policy to allow endowment funds to grow at an average of the long-term rate of inflation. This is consistent with the foundation's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specific term, as well as to provide additional real growth through new gifts and investment return. It is anticipated that payments will approximate the estimated sustainable rates of total return (income and a portion of capital appreciation) after inflation. This total return payout rate will be monitored to determine the effects of changing return and inflation expectations on the preservation of purchasing power, and the generation of appropriate levels of spendable income, and the payout rate will be reset annually.

6.39

Note X: Total-Return Method

The entity makes distributions from the endowment fund to operations using the total-return method. Under the total-return method, fund distributions consist of net investment income and may, under certain conditions, include a portion of the cumulative realized gains. The board of trustees establishes a spending rate as a percentage of the fair value of endowed funds at the beginning of each fiscal year. Distributions are made in an amount equal to the product of the fair value of endowed funds at the beginning of the year and the spending rate. To the extent that the distributions exceed net investment income, they are made from realized gains.

A spending rate of 5.64 percent for fiscal year 20X2 resulted in total distributions related to endowment funds of $14.9 million for the year ended June 30, 20X2, of which approximately $2.7 million represents transfers of realized gains from the endowment distribution reserve.

6.40

Note X: Endowment Payout

The entity's policy governing the amounts paid annually from the endowment pools to support current operations is designed to protect the value of the endowment against the expected impact of inflation and to provide real growth of the endowment, while also funding a relatively constant portion of the entity's current operating expenditures. The payout rate, set annually by the board, is based on an estimate of total investment returns and the expected impact of inflation on the endowment assets. The sources of the payout are earned income on the endowment assets (interest, dividends, rents, and royalties), previously reinvested income, and a portion of realized capital gains.

The board approved a payout rate of 5.25 percent for fiscal years 20X2 and 20X1. To meet the board-authorized payout rate, previously reinvested income and realized gains were withdrawn, net of reinvestment, in the amount of $2,455,000 in 20X2 and $1,988,000 in 20X1.

6.41

Note X: Spending Rate Return

The entity's board of directors has adopted a spending rate policy whereby a predetermined amount of investment income is provided to fund current operations. The spending rate return reflected in unrestricted net assets was $5,071,000 and $4,825,000 in fiscal years 20X2 and 20X1, respectively, calculated as 5.5 percent of the three-year rolling average fair value of investments after investment management costs. In 20X2 and 20X1, net investment income included interest and dividend income; realized and unrealized gains of $3,261,000, $9,288,000, and $1,607,000; and $3,723,000, $5,263,000, and $4,253,000, respectively and is net of investment expenses of $501,000 and $452,000, respectively. Unrestricted investment income also includes interest income earned on operating funds of $135,000 and $183,000 in 20X2 and 20X1, respectively.

6.42

Note X: Beneficial Interest in Assets Held by Others

In 20W5, the entity transferred $1,000,000 from its investment portfolio to the XYZ Community Foundation to establish an endowment fund. Under the terms of the agreement, in the first quarter of each year, the entity receives a distribution equal to the investment return generated by the transferred assets in the prior year. The entity can withdraw all or a portion of the original amount transferred, any appreciation on those transferred assets, or both, provided that a majority of the governing boards of the entity and the foundation approve the withdrawal. At the time of the transfer, the entity granted variance power to the foundation. That power gives the foundation the right to distribute the investment income to another not-for-profit entity of its choice if the entity ceases to exist or if the governing board of the foundation votes that support of the entity is no longer necessary or is inconsistent with the needs of the community. At June 30, 20X2, the endowment fund has a value of $1,228,620, which is reported in the statement of financial position as beneficial interest in assets held by others.

CONTRIBUTIONS RECEIVABLE

6.43

Many entities use the term *pledges* to describe this balance sheet item. The FASB ASC glossary refers to them as *promises to give*. Use of the word *pledge* in the sample notes refers to the gift itself, not the related financial statement amounts. See also the comment about *grants* versus *contributions* under the "Liabilities" topic in this section.

6.44

See also paragraphs 5.78 and 5.133 of the AICPA Audit and Accounting Guide *Not-for-Profit Entities* (the guide). (Paragraph 5.133 of the guide is reprinted in the appendix of this publication.)

6.45

See FASB ASC 958-605-30-5 for a discussion of the determination of the discount rate if present value techniques are used to measure fair value. The rates stated in the sample notes should not be assumed to be the appropriate rate to use at any particular future time.

6.46

Note X: Contributions Receivable

At July 31, 20X2, the entity had $25,282,000 of contributions receivable, which will be received within one year and $9,983,000 of contributions receivable, which will be received in one to five years. Total amounts expected are $42,650,000, which have been discounted by $7,385,000 using a rate of 5 percent. The entity has recorded an allowance for uncollectible receivables of $168,000 and $251,000 at July 31, 20X2 and 20X1, respectively.

Contributions receivable at July 31, 20X2 include an individual pledge in the amount of $6,000,000 due in the period 20X6–20X8. Remaining contributions receivable are individually less than 10 percent of total contributions receivable at that date and are not considered to represent a significant concentration of credit risk.

At July 31, 20X2, the entity had also received conditional promises of $9,000,000 ($1,000,000 for restoration of the theater, $5,000,000 for endowment, and $3,000,000 for purposes to be mutually agreed upon), which it expects to receive during the period 20X4–20X8. The receipt of such contributions is conditional on the entity completing the restoration of the theater and the receipt of certain cash contributions from other donors.

6.47

Note X: Conditional Contributions Receivable

The opera company has an existing conditional promise to receive $80,815, due in the fiscal year ending June 30, 20X3. Payment is contingent upon meeting a certain working capital requirement, reaching a minimum operating expense level, and not incurring any long-term debt with the exception of monies intended for the acquisition of capital assets.

During fiscal 20X2, the company received a conditional promise of $200,000, due in $100,000 increments in December 20X3 and 20X4. Payment of the first $100,000 of the grant is contingent upon the company's ability to expand from a four-opera to a five-opera season during the fiscal year ended June 30, 20X3, which will include the performance of [*Opera A*]. The second grant payment is contingent upon the company successfully raising $88,000 during 20X2–20X3 for the production of [*Opera A*], and $86,000 for the 20X3–20X4 production of [*Opera B*], before its opening performance in November 20X3.

Because the conditions for payment by the donors of these promises have not been met as of June 30, 20X2, these amounts are not included in fiscal year 20X2, revenues and are not included in contributions receivable at June 30, 20X2.

6.48

Note X: Contributions Receivable

Promises to give, net of discount to present value (at a rate of 7 percent) and allowance for doubtful accounts, are due to be collected as follows:

	August 31	
	20X2	*20X1*
Gross amounts due in:		
One year (including $200 and $556 of endowment pledges in 20X2 and 20X1, respectively)	$1,974	$1,223
One to five years	1,194	600
More than five years	1,443	1,543
	4,611	3,366
Less discount to present value	(944)	(964)
	3,667	2,402
Less allowance for doubtful accounts	(87)	(304)
Total	$3,580	$2,098

The discount will be recognized as contribution income in fiscal years 20X3–20Y5 as the discount is amortized using an effective yield over the duration of the pledge.

Approximately $3,250 of the gross contributions receivable at August 31, 20X2 were due from five individuals, corporations, or foundations.

In addition, the entity has been informed of intentions to give in the form of possible future bequests, currently of indeterminable value, that have not been reflected in the accompanying financial statements because they are not unconditional promises.

6.49

Note X: Contributions Receivable

Contributions receivable represent unconditional promises to give by donors. Current contributions receivable are expected to be collected during the next performance year and are recorded at net realizable value. Long-term contributions receivable are expected to be collected subsequent to performance year 20X3.

Contributions that are expected to be collected after one year have been discounted at 4 percent and are reflected in the financial statements at their net present value. Contributions receivable are due as follows:

	Performance Years	
	20X2	*20X1*
Less than one year	$4,736,053	$802,296
One to five years (net of discounts of $633,000)	5,006,104	—
Allowance for uncollectible contributions	(112,570)	—
Total contributions receivable	$9,629,587	$802,296

6.50

Note X: Contributions Receivable

Contributions receivable, less an appropriate reserve, are recorded at their estimated fair value. Amounts due more than one year later are recorded at the present value of the estimated future cash flows, discounted at adjusted risk-free rates applicable to the years in which the promises were received, which range from 4 percent to 6% percent Amortization of the discount is credited to contribution income. The expiration of a donor-imposed restriction on a contribution or endowment is recognized in the period in which the restriction expires, and the related resources are then classified as unrestricted net assets.

Contributions receivable consisted of the following as of June 30, 20X2:

Unconditional promises expected to be collected in:	
Less than one year	$ 24,411
One to five years	48,883
More than five years	14,762
Less discount to present value ($12,074) and other reserves ($10,000)	(22,074)
Total	$ 65,982

At June 30, 20X2, there were also outstanding donor intentions to pay totaling $12,130 for general operating purposes, as follows:

Amounts due in:	
Less than one year	$ 3,693
One to five years	8,388
Thereafter	49
	$12,130

These intentions to pay are not unconditional promises and, therefore, have not been included in the entity's financial statements.

6.51

Note X: Contributions Receivable

As of December 31, 20X2, the expected future cash receipts of unconditional contributions receivable are as follows:

Receivables due in less than one year	$ 9,850
Receivables due in one to five years	7,702
Receivables due in more than five years	2,197
Less estimated uncollectible amounts	(207)
	$19,542

The entity has reported these unconditional pledges as contributions in the accompanying combined statement of activities. The present value of the unconditional contributions receivable as of December 31, 20X2 is approximately $17,402 (discount of $2,140), using a discount rate of 5 percent.

6.52

Note X: Conditional Promises to Give

A trustee has agreed to match contributions to the entity's endowment funds on a one-for-two basis until the total reaches $10,000,000. In addition, a contributor has pledged to contribute $500,000, conditional upon proper matching with a grant from the National Endowment for the Arts.

6.53

Note X: Receivables From Split-Interest Agreements

Receivables from split-interest agreements represent the estimated net present value of the ballet's irrevocable remainder interests in a pooled income fund and various trusts held by third-party trustees. The net present value of these receivables was determined using investment returns consistent with the composition of the asset portfolios of the trusts and the pooled income fund, single or joint life expectancy from the [*Year*] Group Mortality Table, and discount rates determined in the years in which the agreements were first established or made known to the ballet. The estimation of the net present value of these receivables is subjective and requires significant judgment. Due to uncertainties inherent in the estimation process, it is possible that future events in either the near- or long-term could materially affect the amounts reported in the consolidated statement of financial position.

OTHER RECEIVABLES

6.54

Note X: Receivables [Portion of Accounting Policies Note]

The entity extends credit to customers of its Publications division to encourage them to purchase books and to constituent entities to encourage them to purchase quality assessment services from the entity. In addition, the entity makes loans to constituent entities at interest rates below prevailing bank rates. These loans are unsecured and require monthly payments of principal and interest. Accrued interest on the loan balances is included in loans receivable.

Receivables are reflected on the balance sheet net of allowances for doubtful collections. The allowance for doubtful trade receivables is determined based upon an annual review of account balances, including the age of the balance and the historical experience with the customer. The allowance for loan losses is determined based upon a review of the currentness of the required loan payments and historical collection experience.

Uncollectible trade and loans receivable are charged to the respective allowance. The allowances are adjusted at year end based upon the reviews previously discussed. An expense or loss is recorded at the time the allowance is adjusted.

6.55

Additional disclosures, like those under the previous heading "Contributions Receivable," would also be made for the contributions portion of the receivables amount in the following note.

6.56

Note X: Receivables

Receivables consist of the following:

Notes, loans, and other long-term receivables	$62,130,620
Student accounts and trade receivables	7,708,904
Contributions receivable	2,351,866
Accrued interest receivable	607,644
	72,799,034
Less allowance for doubtful accounts	(1,442,907)
	$71,356,127

Previously included are $326,453 of past due notes and loans receivable.

6.57

Note X: Student Accounts Receivable

Student accounts receivable are reported net of any anticipated losses due to uncollectible accounts. The college considers an account to be past due when a student leaves mid-semester with an unpaid account balance or when a student has an account balance after the final payment due date of the semester. Past due accounts are subject to past due letter collection efforts and are subsequently placed with third-party collection agencies. If an account balance still exists at the conclusion of the 9-to-12-month collection period, the account is written off. The collectibility of individual accounts is evaluated closely at the close of each fiscal year, and the allowance for uncollectible accounts is adjusted to a level which, in management's judgment, is adequate to absorb potential losses inherent in the receivable portfolio. Historical write-off history as a percentage of outstanding receivable balances is used to help establish an appropriate allowance for uncollectible accounts. The college does not assess finance charges against student receivables that are past due.

6.58

Note X: Student Loans Receivable

Student loans receivable are reported net of any anticipated losses due to uncollectibility. The college considers a loan to be in default when it has been past due for a period of nine months. Past due loans are subject to internal collection efforts for a period of one year and are subsequently placed with third-party collection agencies for another year. If a loan is still delinquent after the two-year collection period, the loan is assigned to the Department of Education, in the case of Federal Perkins Loans, or written off, in the case of institutional loans. The allowance for uncollectible loans is calculated as the average of the outstanding loan balance multiplied by the cohort default rate and one half of loans in default, in the case of Federal Perkins Loans, and one half of loans in default, in the case of institutional loans. The Federal Perkins Loan program has provisions for deferment, forbearance, and cancellation of individual loans. The deferment and forbearance provisions of the Federal Perkins Loan program are generally applied to institutional loans as well. Interest continues to accrue while the loan is placed with a collection agency. At June 30, 20X2 and 20X1, student loans receivable past due 90 days or more and continuing to accrue interest total $308,196 and $539,784, respectively. At June 30, 20X2 and 20X1, student loans receivable once accruing interest but no longer accruing interest (nonaccrual) total $40,635 and $87,794, respectively.

6.59

Note X: Student Notes Receivable

Student notes and interest receivable at June 30 include the following:

	20X2	*20X1*
Perkins Loan Program	$32,532	$33,548
University student loan program	23,595	18,449
Other student loans	4,051	4,117
	60,178	56,114
Less: Allowance for doubtful accounts	(4,520)	(3,529)
	$55,658	$52,585

Student notes receivable include donor-restricted and federally sponsored student loans with mandated interest rates and repayment terms subject to significant restrictions regarding their transfer and disposition. University student loans are made with university funds to meet demonstrated needs in excess of all other sources of student loan borrowings. Interest accrues at fixed rates upon loan disbursement.

Amounts received from the federal government to fund a portion of the Perkins student loans are ultimately refundable to the federal government and have been reported as refundable advances in the statement of financial position. The fair value of student loan instruments could not be determined without incurring excessive costs.

6.60

Note X: Note Receivable From Employee

During November 20X1, the entity became aware that an employee had misappropriated a material amount of entity funds during fiscal year 20X1. Such misappropriation principally related to the diversion of entity funds into the employee's personal account and through the forgery of checks. The board of governors obtained a promissory note and mortgage on the individual's residence, and in December 20X2, the entity received $49,908 from the employee in consideration for the release of the note and mortgage. The financial statements at September 30, 20X2 reflect the note receivable and adjustments to members' individual accounts receivable balances, restaurant revenues, and membership income. However, additional items relating to cash reimbursements, payroll checks, and personal checks aggregating approximately $4,900, for which no recovery was made, are included in expenses.

Management believes its investigation into this matter has resulted in a reasonable quantification of diverted funds. However, there can be no assurances that all losses to the entity have been identified.

INVENTORY AND PREPAID EXPENSES

6.61

Similar wording would be used for most types of inventory, including those of college bookstores, museum gift shops, and so on. Although not-for-profit entities may use the last in, first out (LIFO) inventory method if they wish, in most cases, there would be little incentive to do so because taxes are not normally a major concern, and the bookkeeping involved is time-consuming.

6.62

Note X: Inventories

Generally, supplies inventories purchased for use in program and supporting services are carried at the lower of first in, first out (FIFO) cost or market.

Whole blood, its components, plasma derivatives, and tissue are valued at the lower of average cost or market.

6.63

Note X: Inventory

Inventory consists of retail shop merchandise and is valued at cost, principally using the average cost method that is not in excess of net realizable value. The museum provides an allowance for inventory obsolescence and shrinkage based on amounts ultimately expected to be realized upon sale.

6.64

Note X: Investments in Productions

Investments in sets and costumes for future productions are recorded at the lower of cost or estimated net realizable value. Income is recognized once cost is recovered.

6.65

Note X: Direct Response Advertising

Direct response advertising consists primarily of telemarketing, production, and mailing costs for subscription sales for the upcoming opera season. At September 30, 20X2 and 20X1, $251,379 and $492,461, respectively, of advertising, which is considered to have future benefit, were recorded as a prepaid asset. Noncapitalized advertising costs are charged to expense as incurred. Advertising expense was $3,886,029 and $3,693,600 in 20X2 and 20X1, respectively.

COLLECTIONS

6.66

See also the examples from chapter 7 of the AICPA Audit and Accounting Guide *Not-for-Profit Entities* in the appendix of this publication. The majority of museums do not capitalize their collections, but a significant minority of museums does.

6.67

Some institutions capitalize some, but not all, collection items. Note that certain disclosures are required, even if collections are not capitalized.

6.68

Note X: Art Collection

In accordance with the practice commonly followed by art museums, art objects purchased, donated, and bequeathed are included in permanently restricted net assets at a value of $1. Contributions for the purchase of art objects are reported as nonoperating support, and the cost of all art objects purchased and the proceeds from deaccessions of art are reported as nonoperating items in the statement of activities.

The museum's policy is to maintain and continue to acquire significant works of 20th century and contemporary art. From time to time, objects may be deaccessioned, subject to the terms of any applicable gift documents or bequests. Deaccessions may also result when a comprehensive evaluative process deems objects are no longer useful or relevant to the purposes and activities of the museum. Deaccessions occur solely for the advancement of the museum's mission, and all proceeds are used to strengthen and improve other areas of the collection.

The fair value of the collection objects approximated $200 million at September 30, 20X2.

6.69

Note X: Art Collection

The museum's art collection is made up of contemporary art objects that are held for exhibition and various other program activities. Each of the items is cataloged, preserved, and cared for, and activities verifying their existence and assessing their condition are performed continuously. The collections are subject to a policy that requires proceeds from their sales to be used to acquire other items for collections.

Purchased items are capitalized at cost; donated items at the fair value (usually determined by a professional appraisal), at the date of receipt from the donor. Items, which by donor stipulation may never be deaccessioned, are classified in the permanently restricted class of net assets.

6.70

Note X: Collections

All contributions of works of art, historical treasures, and similar assets, whether held as part of a collection or for other purposes, have been recognized at their estimated fair value at the date of receipt based upon appraisals or similar valuations. All such items, whether contributed or purchased, have been capitalized.

6.71

Note X: Art Collection

The art collection, which was acquired through purchases and contributions since the museum's inception, is not recognized as an asset on the statement of financial position. Purchased collection items are recorded as decreases in unrestricted net assets in the year in which the items are acquired, or in temporarily or permanently restricted net assets, if the assets used to purchase the items are restricted by donors; contributed collection items are excluded from the financial statements. Proceeds from deaccessions or insurance recoveries are reflected as increases in the appropriate net asset classes. The museum received donated art objects valued at approximately $775,000 during the year ended June 30, 20X2.

6.72

Note X: Art Collection

Works of art in the museum's collection are not recognized as assets on the statement of financial position. Purchases of artworks are recorded as decreases in unrestricted net assets in the year in which the items are acquired or as temporarily restricted net assets if a donor makes a contribution intended to fund the subsequent purchase of artwork. Contributions of works of art are not reflected on the financial statements.

Sculpture Garden

In 20X2, the museum entered into a 25-year agreement with the [*City*] Park and Recreation Board to jointly operate the Sculpture Garden on acreage adjacent to the museum. The acreage and improvements thereon are property of the Park Board, which is responsible for the maintenance and security of the garden. Sculpture placed in the garden is the property of or is loaned to the museum, which is financially responsible for placing, maintaining, and insuring it. Expenses related to maintaining the artwork as well as artistic programs and events occurring in the garden are included in operations.

6.73

Note X: Collections

The museum has extensive collections of specimens and artifacts that constitute a record of life on Earth. These valuable, and sometimes irreplaceable, collections have been acquired through field expeditions, contributions, and purchases since the museum's inception and represent one of the largest natural history collections in the world. New collection areas include the museum's frozen tissue collection of DNA and tissue samples and access to large scientific databases of genomic and astrophysical data. The collections provide a resource for scientists around the world. The collections grow significantly each year.

The collections are the property of the museum and are not recognized as assets in the accompanying consolidated statements of financial position. They are held under the care of the curatorial staff for scientific research, educational, and public exhibition purposes in furtherance of the museum's mission.

The museum's collections policy requires that the proceeds from the sale of collection items be used for acquisitions to the collections. If the assets used to purchase the collection items are restricted by donors, proceeds from the sale of those items are recorded as increases in temporarily restricted net assets. The cost of collections purchased is recorded as a decrease in net assets in the year purchased. The value of donated collection items is not recorded.

6.74

Note X: Library, Art, and Garden Collections

The collections, which were acquired through purchases and contributions since the entity's inception, are not recognized as assets on the statement of financial position. The collections are held for public education or research in furtherance of public service rather than financial gain.

Purchases of collection items are recorded as decreases in unrestricted net assets in the year in which the items are purchased or in temporarily restricted net assets if the assets used to purchase the items are restricted by donors. Contributed collection items are not reflected on the financial statements. The estimated fair value of contributed collection items amounted to $1,600,000 in fiscal year 20X2.

The entity continually reviews its collections and may deaccession or acquire additional items. Proceeds from deaccessions are classified as unrestricted, except when donor restrictions apply. The collections are subject to a policy that requires proceeds from deaccessioning to be used to acquire other items for collections.

FIXED ASSETS

6.75

Although not-for-profit entities may use accelerated depreciation if they wish, very few do because taxes are not usually a concern.

6.76

Note X: Plant Facilities

Plant facilities (including land), dedicated to educational purposes, are stated at cost or fair value at date of donation. Interest for construction financing is capitalized as a cost of construction.

Depreciation is computed using the straight-line method over the estimated useful lives of the plant assets. The estimated useful lives are as follows:

Buildings	40 years
Building improvements	15 years
Equipment and books	6 years

Depreciation related to auxiliary activities is recorded as an auxiliary expense.

6.77

Note X: Capital Assets

Capital assets are summarized by major classification as follows:

	20X2	*20X1*
Land	$ 115	$ 115
Warehouses	1,618	1,546
Leasehold improvements	9,635	8,823
Furniture and fixtures, including data processing equipment	4,612	4,372
Theatrical equipment	9,412	7,971
Equipment held under capital lease	494	—
Construction-in-progress	636	1,691
	26,522	24,518
Less: accumulated depreciation and amortization	(8,234)	(6,428)
Total capital assets	$18,288	$18,090

The cost of certain government-owned equipment and facilities, which are utilized by the entity in connection with its theatrical performances under agreements with the government, is not reflected in the balance sheet.

[*Although not required, accumulated depreciation and amortization may be presented for each component of capital assets. This would result in a multicolumnar presentation for each year.*]

6.78

When grants include amounts for the acquisition of fixed assets, the funder may retain legal title to the assets or the right to determine their disposition at the end of the grant period. In such cases, if it is probable that the recipient will be permitted to keep and use the assets over their entire useful lives, the recipient should capitalize and depreciate the assets in the normal manner for GAAP financial statements (even though the acquisition of the assets may be reported as an expenditure of the entire amount in reports to the funder). This treatment is discussed further in paragraph 9.04 of the AICPA Audit and Accounting Guide *Not-for-Profit Entities*. Disclosure of such arrangements should be made.

6.79

Note X: Property and Equipment

Property and equipment acquired with [*Funder*] money are considered to be owned by the entity while used for general operations. However, [*Funder*] has the right to determine the use of these assets or the use of any proceeds resulting from the sale of these assets.

The cost of property and equipment purchased in excess of $500 is capitalized. Depreciation and amortization are provided in amounts sufficient to amortize the cost of the property and equipment over the estimated useful lives of the assets (ranging from 3–25 years) on a straight-line basis.

[*The preceding text would normally be part of a longer note detailing the components of property and equipment, including cost and useful lives by category.*]

6.80

Note X: Current Plant Construction

At June 30, 20X2, the university had under construction buildings that will cost approximately $27.5 million. The estimated cost to complete this construction is $11.1 million. Costs incurred through June 30, 20X2, of $16.4 million are included in land, buildings, and equipment. These buildings are being funded by loans, gifts (received or promised), and grants.

6.81

Note X: Renovation and Expansion Project

After completion of a feasibility study that was begun in 20X1, the project commenced with the acquisition of two adjacent parcels of property in February 20X2. Plans called for the demolition of certain structures on the acquired property; the renovation of the auditorium, public accommodations, and support areas in [*Concert Hall*]; and the expansion of the facility through new construction, transforming the facility from a concert hall into a year-round music center (the symphony enter). This goal will be accomplished through improvements to acoustics, performance spaces, audience entities, and support facilities, and the establishment of a new music education center.

Real estate acquisition, construction, and renovation, currently projected to cost approximately $114 million, began in earnest during May of 20X2. It is expected to be substantially completed by the fall of 20X3 and is to be financed primarily through the issuance of debt. As of June 30, 20X2 and 20X1, capitalized costs consist of the following:

	20X2	*20X1*
Real estate:		
Land	$25,025	$25,025
Building	515	515
Feasibility study	559	559
Construction and renovation (including design and other related costs)	43,528	13,715
Capitalized interest (net)	2,711	1,150
	72,338	40,964
Less: accumulated depreciation	(65)	—
Total	$72,273	$40,964

6.82

Note X: Land and Buildings

The value of land and certain buildings occupied or operated by the museum is not included in the accompanying balance sheet. Title to such land and buildings is held by the Commissioners of [*Park*]. The museum records contribution revenue and occupancy expense each year in an amount estimated to be the fair value of the use of this property.

The cost of the Student Education Center and building improvements represent major capital expenditures made by the museum, which extend programs and improve exhibition facilities for the collection and are capitalized at cost and are being amortized over their useful lives of from 10–30 years.

6.83

Note X: Land and Buildings

Included in fixed assets are land and buildings owned by[*City*]. These city-owned properties with a fair value of approximately $20,200,000 at the date of donation ($7,500,000, net of accumulated depreciation at December 31, 20X2), have been recorded in the financial statements because although title is held by the [*City*], the full economic value of their use is now and will continue to be in perpetuity, held by the [*Botanical Garden*]. The land and buildings, which are of single-purpose design and are dedicated solely to the garden's use, have been provided to the garden in accordance with the original 18XX Act of Incorporation of [*State*], as amended, which specifies that [*City*] will provide grounds and buildings for the garden, and that such grounds and buildings shall be under the management and control of the garden. Further, since the original buildings were constructed, the garden has financed various additions and improvements to the buildings, which have been recorded at cost. Because the garden does not have the power to dispose of these properties, their related equity is included in the restricted classes of net assets (permanently for nondepreciable assets—land; temporarily for depreciable assets—buildings and improvements).

6.84

Note X: Conservation Land

Land donated with restrictive covenants in the deed that prohibit the [*Conservation Entity*] from ever developing or disposing of the land, is recorded at fair value at the date of donation in the permanently restricted class of net assets.

6.85

Note X: Scenery and Costumes

The opera's policy is to expense all costs of scenery and costumes for a production in the fiscal year that the production is first performed. These items have been included in the accompanying statements of financial position in the amount of $1 in order to recognize the ongoing benefit of such items, which are insured in the amount of $3,000,000. Scenery and costume expenses recognized as expense totaled $790,173 and $604,031 in fiscal years 20X2 and 20X1, respectively.

6.86

See FASB ASC 958-360-35-3 for a discussion of when it may be appropriate to not depreciate certain assets.

6.87

Note X: Musical Instruments

The cost (or donated value) of musical instruments is capitalized and depreciated over their estimated useful lives, except for antique musical instruments valued at $1,501,000 in 20X2 and 20X1, which are not being depreciated because their service potential is considered to last indefinitely.

LIABILITIES

6.88

In section 7, see "Expenses" for tax-related items; see "Split-Interest Agreements, Including Related Assets and Liabilities" for annuity liabilities; and see "Earned Income and Deferred Revenue" for deferred revenue items.

6.89

The term *grants payable* is often used to describe amounts awarded by a funder (which may be a government, a for-profit, or a not-for-profit entity) to a not-for-profit (and, rarely, to a for-profit) recipient. This term, however, is used rather loosely in practice to refer both to contributions, as defined in the FASB ASC Glossary, as well as to amounts which are not contributions, but rather payments for goods or (more often) services to be rendered by the recipient to the payor—properly referred to as *exchange transactions*. Because accounting by both the funder and the recipient for contributions and exchange transactions is quite different, to make it clear which kind of transaction is being described, this publication uses the term *contributions payable* when that is what is intended. The term *grant* is used here to refer to the award itself, not the related financial statement amounts.

6.90

Note X: Contributions to Others

The entity makes awards and grants for research, education, and other projects in the field of workforce development and utilization. The minimum amount for which the entity is obligated is recorded upon the board of directors' approval. Awards and grants payable beyond one year are reported at the present value of their estimated future cash flows using a discount rate of 5 percent.

For the years ended December 31, 20X2 and 20X1, grants were awarded to charitable entities under the following program services:

	20X2	*20X1*
Community vitality	$13,239,463	$10,952,186
Future work force	9,633,625	8,290,427
Involved employees	1,373,720	1,141,099
Public policy and marketplace issues	1,564,810	1,269,000
	$25,811,618	$21,652,712

Contributions payable of $6,767,000, net of unamortized discount of $875,000, as of December 31, 20X2, for which all conditions have been met, are payable in the following years:

20X3	$4,049,000
20X4–20X8	2,351,000
After 20X8	367,000
	$6,767,000

Conditional promises to give are recognized when the conditions on which they depend are substantially met. The foundation has outstanding conditional grant commitments of $1,050,000 as of December 31, 20X2, which are dependent on the recipient entity's ability to meet the conditions established at the time of the grant approval by the foundation's board of trustees.

6.91

Note X: Research Grant Contributions Payable

Research grant contributions payable at June 30, 20X2, consist of the following:

Gross contributions payable	$51,119,414
Less: unamortized discount to present value	(3,556,826)
	$47,562,588
The gross amounts of the payables are due as follows:	
Less than one year	$25,736,878
One to five years	25,382,536
	$51,119,414

At June 30, 20X2, there are outstanding intentions to pay research grants, as follows:

Less than one year	$ 2,500,000
One to five years	10,124,187
	$12,624,187

These research grant intentions to pay are not unconditional promises to pay and, therefore, have not been included in the foundation's financial statements.

6.92

Note X: Awards and Grants to Others

Under the terms of agreements with 24 educational and medical institutions, the entity is obligated to pay the annual stipends of 27 career professorships in [*disease*] research. The entity also grants other research and professional education awards covering periods of up to five years.

The aggregate amount for which the entity is obligated under its agreements as of December 31, 20X2 is approximately $98,398,000. The present value of the liability for awards and grants as of December 31, 20X2 is approximately $93,875,000. The discount of $4,523,000 will be recognized as an awards and grants expense in fiscal years 20X3–20X7 as the discount is amortized using an effective yield over the life of the awards and grants contract. The liability for awards and grants is payable as follows:

20X3	$67,802
20X4	22,333
20X5	5,610
20X6	2,503
20X7	150
	$98,398

In addition, subject to certain conditions, including, but not limited to, satisfactory scientific review in future years, the entity is contingently liable for stipends of $11,558,327 under certain career professorship agreements it has with various educational and medical institutions.

6.93

Note X: Advances From Grantors

The majority of the advances are attributable to conditional contributions from the XYZ Charitable Trust, which has awarded the entity grants to administer a National Residency Program, totaling $10,706,000, of which $10,591,000 has been received through December 31, 20X2. The entity uses the funds received to provide grants to participating residence groups, based on predetermined qualifying factors. Revenue is being recognized when the conditions are substantially met, that is, when the residence group meets the qualifications to receive a grant. The amount of the grants received by the entity not yet recognized as revenue is $874,871.

6.94

In cases such as the following, the auditor may need to consider whether the entity has maintained an appropriate composition of assets.

6.95

Note X: Loans From Endowment Fund

In September 20X0, the directors of the entity authorized the borrowing of up to $10 million from the endowment fund for necessary capital improvements to the opera house. This authorization was subsequently revised in May 20X1 to permit the use of borrowings in meeting current and future financial contingencies. The entity had borrowings of $8,000,000 at June 30, 20X1 and $7,800,000 at June 30, 20X2 under this arrangement. Interest expense in 20X2 was $730,000 and in 20X1 was $648,000.

In September 20X2, the executive committee authorized a 30-day loan of up to $6,000,000 from the endowment fund. The association borrowed $6,000,000 on September 14, 20X2, to repay its bank line of credit, as described in note [*number*]. This borrowing is scheduled to be repaid in full on October 13, 20X2.

6.96

Note X: Liabilities Under Split-Interest Agreements

The balance at May 31, 20X2 consists of the following:

Charitable gift annuities	$1,602,946
Revocable trusts and life income funds	684,383
Total	$2,287,329

The university operates a charitable gift annuity program whereby donors receive a life income in exchange for assets conveyed to the university under an annuity contract. The university's liability under the annuity contracts, amounting to $1,602,946 at May 31, 20X2, is recorded at present value based on the donor's life expectancy. Payments to contract holders amounted to $226,356 during the year ended May 31, 20X2 and have been recorded as a reduction of the liability under split-interest agreements. Under the terms of the contracts, the assets, which are included in investments, are temporarily restricted. Actuarial gains and losses and amortization of the present value discount on annuity obligations are reflected in the statement of activities as changes in split-interest agreements.

In addition, the university acts as trustee for various revocable and irrevocable trusts. These trusts generally provide current income to the grantor or other designated beneficiary with benefits payable to the university or other beneficiaries, or both, from the corpus upon the death of the grantor. The trust activity is summarized as follows:

		Irrevocable Trusts		
	Revocable Trusts and Life Income Funds	*Held for University (Included in Long-Term Investments)*	*Held For Other Beneficiaries*	*Total Irrevocable Trusts*
Balance at June 1, 20X1	$729,136	$1,297,298	$ 479,386	$1,776,684
Additions	12,731	199,174	207,235	406,409
Investment income	21,320	44,075	1,740	45,815
Realized and unrealized gains (losses)	7,032	(11,188)	—	(11,188)
Beneficiary payments and expense	(85,836)	(304,327)	(688,361)	(992,688)
Balance at May 31, 20X2	$684,383	$1,225,032	$ —	$1,225,032

6.97

Note X: Medical Professional Liability Claims

The university is insured for medical professional liability claims through the combination of the Medical Professional Liability Catastrophe Loss Fund of [*State*], various commercial insurance companies and a risk retention program.

The university accrues for estimated retained risks arising from both asserted and unasserted medical professional liability claims. The estimate of the liability for unasserted claims arising from unreported incidents is based on an analysis of historical claims data by an independent actuary.

The university has established a trust fund for the payment of its medical professional liability claims under its risk retention program. Annual contributions are made to the trust fund, at an actuarially determined rate, to provide funding for its retained risk. The assets of the trust fund are included in the accompanying financial statements.

6.98

Note X: Dormitory Financing

The college and the [*State*] Dormitory Authority executed a loan agreement for $35,000,000 under the authority's $200,000,000 College and University Variable Rate Insured Revenue Bonds of 20W6 in connection with the construction of a dormitory to house approximately 400 students.

As a security for the loan, the college has pledged tuition revenues in the amount of $1,600,000 annually; granted a security interest in all fixtures, furnishings, and equipment of the new dormitory; and executed a fee mortgage and leasehold mortgage on certain buildings and properties. The loan agreement also contains covenants which restrict the college's ability to incur additional debt.

Subsequent Event. On September 25, 20X2, the university refunded its 20W3 bonds, originally issued in the amount of $20 million. The new bonds, also issued in the nominal amount of $20 million, will mature in December 20X9 and carry a fixed interest rate of 4.75 percent.

6.99

Note X: Financing of Building Renovation

On September 26, 20X0, the City Industrial Development Agency (IDA) issued $4.1 million of Adjustable Rate Demand Civic Facility Revenue Bonds, the proceeds of which were used to finance a portion of the cost of the renovation of the entity's headquarters as well as the retirement of the outstanding Civic Facility Revenue Bonds dated December 1, 20W1. The construction was completed in 20X1.

The proceeds were made available to the entity under the provisions of a lease agreement pursuant to which the entity leased the building to IDA and IDA leased the facility back to the entity. The scheduled lease payments to be made by the entity to IDA are intended to be sufficient to pay sinking-fund installments of principal and interest on the bonds.

In connection with this renovation project, construction costs and a liability equivalent to the principal amount of the bonds outstanding are reflected on the balance sheet. At December 31, 20X2, the entity has drawn down $3,891,130. The balance of $208,870 is reflected on the balance sheet as a receivable. The bonds bear interest at a variable rate, determined weekly, not to exceed 9.5 percent. The entity has the option of converting to a fixed interest rate. The rate at December 31, 20X2 is 1.3 percent. The bonds, which mature in 20Y1, are subject to mandatory redemption by IDA at a price equal to the principal amount thereof, together with accrued interest at the date of redemption, from the sinking fund, on the dates and in the principal amounts set forth in the following schedule. In addition, the bonds are subject to optional redemption at the redemption prices set forth in the bond indenture.

The entity's performance of its rental payments is secured by a mortgage lien on the entity's building. Further, the payment of principal, interest, and redemption premium, if applicable, of the bonds has been guaranteed by the entity pursuant to a guaranty agreement.

Concurrent with the issuance of the bonds, a bank issued a letter of credit in the amount of $4.1 million. The letter of credit contains various covenants, among which are the requirements to maintain minimum amounts of cash and a minimum debt service coverage ratio.

The payments of principal to IDA in satisfaction of the sinking-fund requirements are as follows:

20X3	$ 190,000
20X4	200,000
20X5	210,000
20X6	220,000
20X7	225,000
Thereafter	3,055,000
	$4,100,000

6.100

Note X: Long-Term Debt

Long-term debt consists of the following at May 31, 20X2:

Capital lease payable, used for computer software and equipment, due in monthly installments of $16,120, which includes a fixed rate of 4.96%. The lease matures in December 20X7	$ 657,031
Economic Development Corporation Variable Rate Demand Revenue bonds, used to refund an existing bond issue and pay off other debt. The effective rate is 1.11% at May 31, 20X2. Interest is payable monthly, and principal is payable in varying annual installments, maturing May 20Y9	14,425,000
Total	$15,082,031

Annual maturities of long-term debt are as follows:

20X3	$ 723,464
20X4	751,757
20X5	1,180,472
20X6	746,338
20X7	630,000
20X8 and thereafter	11,050,000
Total	$15,082,031

Interest expense for the year ended May 31, 20X2, on the preceding debt was $920,858.

The university had entered into an interest rate swap agreement in conjunction with a variable rate demand revenue bond issue that was refunded during the year. Realized losses on monthly settlement transactions totaled $14,755 and $81,435 for the years ended May 31, 20X2 and 20X1, respectively. The swap was dissolved during 20X2. At year end, no new swap agreements had been entered into.

On May 26, 20X2, as part of the 20X2 bond issue, the university issued and filed an intent to redeem the outstanding balance of the 20W6 bonds of $3,025,000. The proceeds from the 20X2 bond issue were put into trust on May 27, 20X2, and the related bond liability was called and redeemed on July 1, 20X2. In accordance with the bond documents, the related trust assets and bond liability were removed from the financial statements on the university effective May 31, 20X2.

6.101

Note X: Interest-Free Loan

In January 20X2, the entity received an interest-free loan of $100,000 from a member of the board of trustees. The purpose of the loan was to pay operating expenses. The loan was repaid on December 31, 20X2. The contribution inherent in the interest-free loan has been recorded at fair value, based on an imputed interest rate of 6 percent, which is the entity's bank borrowing rate. Contribution revenue and interest expense of $6,000 has been reflected in the statement of activities.

6.102

FASB ASC 958-715 provides guidance on pension and other postretierment benefits disclosure requirements.

6.103

Note X: Pension Plans

The society maintains noncontributory defined benefit pension plans (the plans), which cover substantially all employees of the society. The benefits are based on years of service and certain averages of compensation. Pension expense is recognized by the society based on the actuarially determined amount, which for fiscal years 2009 and 2008, was $25,083,000 and $19,761,000, respectively. The society's liability for contributions accrued and unpaid as of August 31, 20X2 and 20X1, was $163,498,000 and $48,714,000, respectively. These amounts are included in accrued retirement plan benefits in the accompanying combined balance sheets.

The current strategic mix for the plans has a blended exposure to equity and debt market risk. The plans employ an active management strategy that has historically generated excess returns and places greater emphasis on manager skills to produce excess return while employing various risk mitigation strategies to reduce volatility. The plan assets at August 31 consist of the following:

	Percentage of Fair Value		
	20X2	*20X1*	*Target Range*
Equity securities	61%	66%	54–75%
Debt securities	38%	33%	25–42%
Cash and cash equivalents	1%	1%	0–10%
	100%	100%	

The benefit obligation and the assets of the plans were $520,043,000 and $356,545,000, respectively, as of August 31, 20X2. The benefit obligation and the assets of the plans were $438,488,000 and $389,774,000, respectively, as of August 31, 20X1. The society employs a "building block approach" in determining the long-term rate of return for plan assets. Historical markets are studied, and long-term historical relationships between equities and debt are preserved, consistent with the widely accepted capital market principle that assets with higher volatility generate a greater return over the long run.

Current market factors such as inflation and interest rates are evaluated before long-term capital market assumptions are determined. The long-term portfolio return is established via a building block approach with proper consideration of diversification and rebalancing. Peer data and historical returns are reviewed to check for reasonability and appropriateness. Although the approach gives appropriate consideration to recent fund performance and historical returns, the assumption is primarily a long-term, prospective rate.

The society also maintains a nonqualified and unfunded supplemental executive retirement plan (SERP) for certain employees whose income exceeds the maximum income that can be considered under the plans. The society's liability for benefits accrued and unpaid as of August 31, 20X2 and 20X1, was $16,775,000 and $19,225,000, respectively. These amounts are included in accrued retirement plan benefits in the accompanying combined balance sheets. Information related to the society's pension plans and SERP as of August 31, 20X2 and 20X1, and the related changes during the years then ended, is as follows:

	Retirement Benefits	*Supplemental Retirement Benefits*	*20X2 Total*	*20X1 Total*
Measurement Date: August 31				
Change in Benefit Obligation				
Benefit obligation at beginning of year	$ 438,488	$ 19,225	$ 457,713	$ 470,876
Service cost	22,448	737	23,185	24,235
Interest cost	28,393	1,121	29,514	28,911
Amendments	—	287	287	2,705
Actuarial (gains)/loss	64,574	1,881	66,455	(25,081)
Impact of settlement	—	—	—	(393)
Benefits paid	(33,860)	(6,476)	(40,336)	(43,540)
Benefit obligation at end of year	$ 520,043	$ 16,775	$ 536,818	$ 457,713
Change in Plan Assets				
Fair value of plan assets at beginning of year	$ 389,774	$ —	$ 389,774	$ 431,263
Actual expenses paid	(974)	—	(974)	(1,320)
Actual return on plan assets	(38,279)	—	(38,279)	(30,490)
Employer contributions	39,884	6,476	46,360	33,861
Benefits paid	(33,860)	(6,476)	(40,336)	(43,540)
Fair value of plan assets at end of year	$ 356,545	$ —	$ 356,545	$ 389,774
Funded status	$ (163,498)	$ (16,775)	$ (180,273)	$ (67,939)
Amounts Recognized in the Combined Balance Sheets				
Accrued benefit liability	(163,498)	(16,775)	(180,273)	(67,939)
Net amount recognized	$ (163,498)	$ (16,775)	$ (180,273)	$ (67,939)
Actuarial Assumptions				
Discount rate:				
Net periodic pension cost	6.75%	6.75%	6.75%	6.25%
Benefit obligation	5.75%	5.75%	5.75%	6.75%
Expected return on plan assets	7.50–8.00%	N/A	7.50–8.00%	7.50–8.00%
Rate of compensation increase	Age Graded 2.5–11.5%	Age Graded 3.0–10.5%	Age Graded 2.5–11.5%	Age Graded 3.0–12.0%
Components of Net Periodic Bnefit Cost:				
Service cost	$ 22,448	$ 737	$ 23,185	$ 24,235
Interest cost	28,393	1,121	29,514	28,911
Expected return on plan assets	(30,807)	—	(30,807)	(33,448)
Administrative expenses	1,670	—	1,670	1,930
Amortization of:				
Unrecognized prior service cost	1,392	1,091	2,483	2,353
Unrecognized actuarial loss (gain)	4,119	(49)	4,070	2,028
Amortization of transition asset	(2,132)	—	(2,132)	(2,698)
Impact of curtailment	—	350	350	—
Impact of settlement	—	650	650	466
Net periodic benefit cost	$ 25,083	$ 3,900	$ 28,983	$ 23,777
Accumulated benefit obligation	$ 452,982	$ 10,057	$ 463,039	$ 390,300
Estimated Future Benefit Payments				
20X3	$ 38,406	$ 1,946	$ 40,352	
20X4	36,764	851	37,615	
20X5	37,371	2,832	40,203	
20X6	38,035	629	38,664	
20X7	39,399	4,338	43,737	
20X8–20Y2	207,573	9,567	217,140	

The society expects to contribute $17,721,000 in fiscal year 20X3.

Included in unrestricted net assets at August 31, 20X2, are the following amounts that have not yet been recognized in net periodic pension cost: unrecognized prior service costs of $7,501,000 and unrecognized actuarial losses of $217,702,000. The prior service cost and actuarial losses included in unrestricted net assets and expected to be recognized in net periodic pension cost during the fiscal year ended August 31, 20X3, are $1,381,000 and $18,808,000, respectively.

Future changes in actual compensation and retirement dates can materially affect both the amount of the benefits ultimately paid and the period over which the related expense is recognized.

6.104

Note X: Pension and Postretirement Plans—Defined Benefit

The university has a noncontributory, defined benefit pension plan for staff employees, as well as a defined benefit faculty retirement incentive plan. The staff pension plan provides payments based on years of participation and the employee's highest annual rate of earnings during the last five years of employment. The faculty plan provides a lump sum payment based on service and the last three years salary for tenured faculty who retire at certain ages.

In addition, the university provides postretirement benefits, including health benefits and life insurance based on years of service and a payout of unused sick time. Although the university's subsidy of the cost of comprehensive health care benefits and life insurance differs among retiree groups, substantially all employees who meet minimum age and service requirements and retire from the university are eligible for these benefits. Nonfaculty employees are paid 50 percent of unused sick time upon retirement from active status.

The following table sets forth the pension and postretirement plans' funded status that is reported in the statement of financial position at June 30:

	Pension		*Postretirement*	
	20X2	*20X1*	*20X2*	*20X1*
Change in benefit obligation:				
Benefit obligation, beginning of year	$ 804,401	$671,947	$ 606,060	$ 482,352
Service cost, excluding assumed administration expenses	34,880	26,866	28,653	20,323
Interest cost	40,170	38,102	30,378	27,311
Benefit payments	(24,561)	(24,128)	(18,528)	(17,616)
Assumption changes	5,889	88,077	7,952	91,625
Actuarial loss	10,447	3,537	10,490	2,065
Benefit obligation, end of year	$ 871,226	$804,401	$ 665,005	$ 606,060
Change in plan assets:				
Fair value, beginning of year	$ 845,971	$803,404	$ 310,552	$ 289,629
Actual return on plan assets	(165,254)	57,939	(76,254)	12,407
University contributions	3,218	9,748	27,219	26,723
Benefits and expenses paid	(26,011)	(25,120)	(19,663)	(18,207)
Fair value, end of year	$ 657,924	$ 45,971	$ 241,854	$ 310,552
Funded Status	$(213,302)	$ 41,570	$(423,151)	$(295,508)

The university has recognized the difference between accrued benefit costs of its defined benefit plans and the funded status at June 30, 20X2, as an adjustment to unrestricted net assets presented as other decreases in the financial capital section of the statement of activities. The components of this adjustment include the following:

	Pension	*Postretirement*	*Total*
Unrecognized net actuarial loss	$249,317	$121,348	$370,665
Amortization of actuarial gain (loss)	(428)	(9,525)	(9,953)
Amortization of prior service cost	(8,779)	(1,432)	(10,211)
Transition obligation	—	(3,717)	(3,717)
	$240,110	$106,674	$346,784

Amounts recorded as an adjustment at June 30, 20X2, that are expected to be amortized into operating activity during fiscal year 20X3 include the following:

	Pension	*Postretirement*	*Total*
Net actuarial loss	$ 528	$10,141	$10,669
Prior service cost	8,570	1,432	10,002
Transition obligation	—	3,717	3,717
	$9,098	$15,290	$24,388

The university uses a June 30 measurement date for its defined benefit plans.

The preceding disclosed benefit obligation represents the actuarial present value of future payments to plan participants for services rendered prior to that date, based on the pension benefit formula. In calculating the value, the participants' compensation levels are projected to retirement.

The accumulated benefit obligation for the pension plan was $682.9 million at June 30, 20X2 and $609.8 million at June 30, 20X1. The accumulated benefit obligation differs from the preceding benefit obligation in that it includes no assumptions about future compensation levels. It represents the actuarial present value of future payments to plan participants using current and past compensation levels.

The primary changes in assumptions during the year were modifications to retirement, turnover, and salary increase assumptions. Modifications to mortality tables also contributed to a small amount of the change. These changes resulted in an increase of $5.9 million to the pension benefit obligation and an $8.0 million increase to postretirement benefit obligations.

Plan Assets

The investment objective for the pension and retiree health plans seeks a positive long-term total return after inflation to meet the university's current and future plan obligations. Asset allocations for both plans combine tested theory and informed market judgment to balance investment risks with the need for high returns. Plan asset allocations by category at June 30 are as follows:

	Pension		*Postretirement*	
	20X2	*20X1*	*20X2*	*20X1*
Absolute return	20.1%	24.1%	14.6%	22.6%
Domestic equity	15.0%	14.5%	20.7%	19.9%
Fixed income	9.0%	14.0%	0.0%	0.0%
Foreign equity	18.3%	14.5%	15.8%	13.7%
Private equity	11.7%	10.7%	9.2%	8.3%
Real assets	21.3%	24.2%	30.3%	34.8%
Cash	4.6%	(2.0%)	9.4%	0.7%

The pension and retiree health long-term rate of return assumption is determined by adding expected inflation to expected long-term real returns of various asset classes, taking into account expected volatility and correlation between the returns of various asset classes.

Contributions

Annual contributions for the pension and retiree health plans are determined by the university considering calculations prepared by the plan's actuary as well as other factors. Expected contributions in fiscal 20X3 to the pension plan are $1.2 million and $27.8 million for the retiree health plan.

Benefit Payments

The following estimated benefit payments, which reflect expected future service, are expected to be paid out of the plans:

Fiscal Year	*Pension*	*Postretirement*
20X3	$ 28,800	$ 21,300
20X4	30,700	23,400
20X5	32,900	25,400
20X6	35,700	27,700
20X7	38,500	30,000
20X8–20Y2	236,500	182,100

The university receives a Medicare Part D subsidy from the federal government as reimbursement for certain retiree health benefits paid to plan participants. The subsidy is approximately 8 percent of retiree health benefits and was approximately $1.7 million for fiscal 20X2.

Benefit Obligations

Assumptions used in determining the year end obligation of the pension and postretirement plans are as follows:

	20X2	*20X1*
Weighted-average discount rate	5.00%	5.00%
Increase in future compensation levels	4.49%	4.55%
Projected health care cost trend rate	8.20%	8.70%
Ultimate trend rate	5.00%	5.00%
Year ultimate trend rate is achieved	2015	2015

The health care cost trend rate assumption has a significant effect on the amounts reported. For the fiscal year ended June 30, 20X2, a 1 percent change in the health care cost trend rate would cause the postretirement benefit obligation at June 30, 20X2, to change by approximately 14 percent and would also cause the sum of the service cost and interest cost components of postretirement expense to change by approximately 18.5 percent.

Net Periodic Benefit Cost

Net periodic benefit cost for the plans includes the following components:

	Pension		*Postretirement*	
Net Periodic Benefit Cost for the Fiscal Year Ended	*20X2*	*20X1*	*20X2*	*20X1*
Service cost	$ 36,100	$ 27,816	$ 29,253	$ 20,923
Interest cost	40,170	38,102	30,378	27,311
Expected return on plan assets	(67,498)	(59,641)	(26,118)	(21,992)
Net amortization				
Transition obligation	—	—	3,717	3,717
Prior service cost	8,779	8,779	1,432	1,432
Net (gain) loss	428	(2,676)	9,525	5,247
Net periodic benefit cost	$ 17,979	$ 12,380	$ 48,187	$ 36,638

Assumptions used in determining the net periodic benefit cost of the pension and postretirement plans are as follows:

	20X2	*20X1*
Weighted-average discount rate	5.00%	5.00%
Expected long-term rate of return	9.00%	9.00%
Compensation increase	4.49%	4.55%
Health care cost increase	8.20%	8.70%
Ultimate trend rate	5.00%	5.00%
Year ultimate trend rate is achieved	2015	2015

6.105

Note X: Employee Benefit Plan

The entity has a defined contribution employee benefit plan (the plan). Under the plan, the entity contributes 3 percent of the employee's compensation, which is immediately fully vested. Participants may elect to contribute up to [*IRS limit*] as well as an additional $5,000 if an individual is 50 or older. The entity will match 100 percent of the additional employee contributions, up to 3 percent of the employee's compensation. For the years ended September 30, 20X2 and 20X1, the entity contributed $867,211 and $811,343 respectively, to the plan.

6.106

Note X: Income Taxes [Portion of Significant Accounting Policies Note]

In 20X1, the museum adopted the provisions of FASB ASC 740, *Income Taxes*, which requires that a tax position be recognized or derecognized based on a "more likely than not" threshold. This applies to positions taken or expected to be taken in a tax return. The museum does not believe its consolidated financial statements include any uncertain tax positions.

6.107

Note X: Income Taxes

The gallery is a nonprofit entity exempt from federal income taxes under the provisions of Section 501(c)(3) of the Internal Revenue Code.

The gallery has adopted the provisions of FASB ASC 740-10-25, which requires that a tax position be recognized or derecognized based on a "more likely than not" threshold. This applies to positions taken or expected to be taken in a tax return. The gallery does not believe its financial statements include any uncertain tax positions.

6.108

Note X: Income Taxes [Portion of Significant Accounting Policies Note]

The university has adopted FASB ASC 740-10-25, which clarifies accounting for uncertainty in income taxes reported in the financial statements. The interpretation provides criteria for assessment of individual tax positions and a process for recognition and measurement of uncertain tax positions. Tax positions are evaluated on whether they meet the "more likely than not" standard for sustainability on examination by tax authorities. There was no material impact on the university's consolidated financial statements for fiscal years 20X2 and 20X1 as a result of adoption.

6.109

Note X: Summary of Significant Accounting Policies [Portion of Longer Note]

Compensated Absences. Full-time employees, excluding faculty, earn from 10–20 days of vacation each year. Employees may be paid for up to one year's unused vacation at their current rate of pay upon termination of service. The college accrues costs incurred for vacation leave as obligations of unrestricted assets. At May 31, 20X2 and 20X1, the college had an accrual of approximately $434,000.

6.110

Note X: Self-Insurance Reserves

The university maintains a self-insurance program for general liability, professional liability, and certain employee and student insurance coverages. This program is supplemented with commercial excess insurance above the university's self-insurance retention. Reserves for losses under the university's self-insurance program, aggregating $27.4 million at June 30, 20X2, include reserves for known losses and for estimated losses incurred but not yet reported. A portion of the reserves pertaining to professional liability has been determined on a discounted present-value basis. Self-insurance reserves are necessarily based on estimates of historical loss experience, and although management believes that the reserves are adequate, the ultimate liabilities may be in excess of or less than the amounts provided. Under an agreement between the university and [*Medical Faculty Foundation*], a proportionate share of professional liability insurance costs is borne by the foundation. At June 30, 20X2, the university had receivables from the foundation of $8.8 million for its share of such costs.

6.111

Note X: Health Insurance Reserve

The entity provides health insurance benefits to its employees through a partially self-funded plan. The plan is administered by a third party. The entity self-funds the cost of the program up to specified stop-loss insurance limits. Coverage during the policy period limits the maximum individual and aggregate losses. Self-insurance costs are accrued based upon the aggregate of the liability for reported claims and an estimated liability for claims incurred but not reported. The reserve at December 31, 20X2 is $669,360.

6.112

Note X: Workers' Compensation

The ballet's workers' compensation insurance policies include self-insured retention limits and fully insured coverage above such limits. Accruals for claims under the ballet's self-insured retention limits are recorded on a claims-incurred basis. The estimated liability for workers' compensation claims at June 30, 20X2, of approximately $701,000 is included in accounts payable and accrued expenses in the accompanying consolidated statement of financial position. The estimation of the costs to be incurred for workers' compensation claims is subjective and requires significant judgment. Due to uncertainties inherent in the estimation process, it is possible that future events in either the near or long term could materially affect the amounts reported in the consolidated statement of financial position.

At June 30, 20X2, the ballet has unused letters of credit totaling $1,835,000 and an unused security deposit of $500,000, as required by the ballet's insurance carriers. The security deposit is included in prepaid expenses and deposits in the consolidated statement of financial position.

6.113

Note X: Costs of Discontinued Activities

On July 1, 20X2, the entity discontinued services in its XXX facility. The entity has recorded related costs that are classified as management and general expenses. A reconciliation of the exit activity liability as of December 31, 20X2 is as follows:

Balance, December 31, 20X1	$ 0
Termination benefits	500,000
Lease termination costs	150,000
Accretion	8,500
Amortization	(132,500)
Balance, December 31, 20X2	$ 526,000

[*In subsequent years, until and including the year that the liability is liquidated, there should be a note reconciling the opening and closing liability balances.*]

6.114

Note X: Funds Held for Others

Funds held for others consist of the following agency type accounts:

	Balance Dec. 31, 20X1	*Investment Income*	*Principal Additions*	*Unrealized Gain/Loss*	*Distributions*	*Balance Dec. 31, 20X2*
Other entities' shares of:						
Charitable remainder unitrusts	$1,952	$201	$1,004	$ 265	$172	$3,250
Charitable remainder annuity trusts	1,797	98	—	(39)	112	1,744
Revocable trusts	685	47	—	(1)	36	695
Miscellaneous trusts	321	25	—	—	30	316
Endowment	576	42	—	(139)	25	454
Annuities	77	7	—	(2)	17	65
Temporary holding	7	—	306	11	282	42
Life insurance	41	—	263	15	—	319
	$5,456	$420	$1,573	$ 110	$674	$6,885

NET ASSETS

6.115

Note X: Net Assets

Unrestricted Net Assets. Unrestricted net assets consist of the following balances at August 31, 20X2 and 20X1:

	20X2	*20X1*
Designated for operations:		
University programs	$ 341,862	$ 240,644
Other gifts and income	309,106	304,726
Student loans and capital projects	71,161	75,986
	722,129	621,356
Investment in plant facilities	660,481	636,798
Endowment gains and funds functioning as endowment:		
Funds functioning as endowment	713,378	519,307
Gains on endowment and funds functioning as endowment	1,736,458	1,490,830
	2,449,836	2,010,137
[*Affiliated Entity*]	319,471	280,057
	$4,151,917	$3,548,348

Temporarily Restricted Net Assets. Temporarily restricted net assets contain donor-imposed restrictions that expire upon the passage of time or once specific actions are undertaken by the university. These net assets are then released and reclassified to unrestricted net assets from which they are expended. Temporarily restricted net assets consist of the following balances at August 31, 20X2 and 20X1:

	20X2	*20X1*
Acquisition of capital assets	$193,248	$148,752
Term endowments	25,554	22,728
Funds subject to living trust agreements	36,585	31,544
Other gifts and income for instruction, research, and university support:		
Purpose-restricted	17,444	13,332
Time-restricted	33,719	42,691
	$306,550	$259,047

Permanently Restricted Net Assets. Permanently restricted net assets are subject to donor-imposed restrictions that the principal be invested in perpetuity. Permanently restricted net assets consist of the following balances at August 31, 20X2 and 20X1:

	20X2	*20X1*
Endowment funds	$1,161,275	$1,070,957
Funds subject to living trust agreements	135,566	117,181
Student loan funds	42,400	39,504
	$1,339,241	$1,227,642

6.116

Note X: Net Assets

Net assets consist of the following:

	December 31	
	20X2	*20X1*
Unrestricted:		
Operating (undesignated):		
Operating reserves	$ 40,692	$ 67,416
Invested in equipment, net of accumulated depreciation	23,077	26,539
Less related mortgage indebtedness	(9,424)	(14,655)
Total undesignated	54,345	79,300
Designated:		
Endowment funds:		
ABC endowment	475,618	433,550
Other endowments	710,195	581,496
Charitable lead trusts receivable	987,878	1,101,838
Charitable lead trust reserves	124,102	—
Voluntary additional annuity reserves	99,442	93,170
Gift portion of annuities	381,115	421,549
Advise and consult funds	3,449,495	3,726,778
Total designated	6,227,845	6,358,381
Total unrestricted	6,282,190	6,437,681
Temporarily restricted:		
Trust funds:		
Charitable remainder unitrusts	620,575	576,201
Charitable remainder annuity trusts	36,691	39,358
Other purpose-restricted funds	41,825	178,991
Total temporarily restricted	699,091	794,550
Total net assets	$6,981,281	$7,232,231

6.117

Note X: Analysis of Restricted Net Assets

Restricted net assets consisted of the following purpose-restricted amounts as of September 30, 20X2:

	Temporarily Restricted	*Permanently Restricted*
Acquisition of art	$ 10,942,210	$ 56,170,104
Center for Advanced Study in the Visual Arts	918,220	11,579,168
Special exhibitions	7,077,392	744,000
Investment in fixed assets	85,555,854	—
Sculpture garden and other capital projects	6,586,896	—
Research	42,886	1,505,000
Conservation	32,798	5,650,000
Operations	780,577	69,902,300
Publications, including catalogues	870,440	—
	$112,807,273	$145,550,572

6.118

Note X: Net Assets Released From Restrictions

Net assets were released from donor restrictions when expenses were incurred to satisfy the restricted purposes specified by donors for the year ended September 30, 20X2 as follows:

	Operating	*Nonoperating*
Acquisition of art	$ —	$ 5,775,407
Center for Advanced Study in the Visual Arts	815,490	—
Special exhibitions	7,185,307	—
Depreciation of building and capital improvements	—	2,693,880
Capital projects	—	4,309,407
Research	55,604	—
Conservation	359,191	—
Operations	779,544	—
Publications, including catalogues	—	368,390
	$9,195,136	$13,147,084

6.119

Note X: Net Asset Transfers [Portion of Significant Accounting Policies Note]

Transfers from unrestricted net assets to temporarily restricted net assets and permanently restricted net assets are primarily the result of donor redesignations or matching funds that are added to the donor gift funds and then take on the same restrictions as the donor gift.

6.120

Note X: Working Capital Reserves

During fiscal year 20X0, the board of trustees designated $100,000 of unrestricted net assets as a working capital reserve. The reserve may be used for cash flow management but must be replenished by June 30 of each year.

During fiscal year 20X1, the entity received a National Arts Stabilization Fund matching grant. The terms of the grant provide that it be used to create a restricted working capital reserve. The grant totals $323,261, payable in four installments over five years. As of June 30, 20X2, $142,446 had been matched and received by the entity under this grant and is included in the working capital reserve as temporarily restricted net assets. As of July 1, 20X5, the end of the grant period, the funds become unrestricted and available for use at the discretion of the entity's board of trustees.

Both reserves consist of money market funds at June 30, 20X2.

6.121

Note X: Long-Term Reserve

The entity's board of directors designated a portion of the entity's accumulated unrestricted net assets as a long-term reserve contingency fund to be used in the event of a significant shortfall in revenues. The board may annually direct that certain amounts of unrestricted net assets be designated as additions to the long-term reserve. During 20X2, the board added $50,000 to the long-term reserve.

6.122

Because many clubs sell capital stock to their members, disclosure about such equity may be made. See also a sample "Members' Equity" section of a statement of financial position in section 1 of this publication.

6.123

Some clubs repurchase a member's stock only when a new member has applied and paid for the stock, as disclosed in the following note.

6.124

Note X: Members' Equity

Members' equity is recorded at amounts specified in the bylaws for voting memberships. Upon the termination of a membership and the assumption of the membership by a new member, the withdrawing member is entitled to receive the greater of $3,500 or the book value of the membership ($4,239 and $4,188 at February 28, 20X2 and 20X1, respectively). As of February 28, 20X2 and 20X1, there were 12 and 14 members, respectively, who had requested termination of their membership upon application by a new member.

6.125

Other clubs will repurchase members' stock upon request, as disclosed in the following note.

6.126

Note X: Member Equity

The club has agreed to purchase its members' shares at $2,250 per share when members terminate their membership in the club. At September 30, 20X2 and 20X1, there were 287 and 274 shares, respectively, held by members. The obligation to redeem the shares is recorded as a liability on the balance sheet.

6.127

FASB ASC 480, *Distinguishing Liabilities from Equity*, requires an entity that has mandatorily redeemable equity shares to recognize a liability for the redemption. However, the provisions of this statement have been deferred.

SECTION 7: DISCLOSURES RELATED PRIMARILY TO THE STATEMENT OF ACTIVITIES AND RELATED STATEMENTS

7.01

These sample notes are not necessarily complete for any given entity's circumstances.

7.02

See also section 6 for notes describing balance sheet amounts, many of which have effects on the statement of activity.

MEASURE OF OPERATIONS

7.03

According to Financial Accounting Standards Board (FASB) *Accounting Standards Codification* (ASC) 958-225-45-9, in addition to classifying revenues, expenses, gains, and losses within classes of net assets, within a class or classes of changes in net assets, a not-for-profit entity (NFP) may classify items as operating and nonoperating. Because this paragraph essentially permits each entity to define *operations* as it wishes, wide variety is found in practice among entities that choose to present such a measure. Disclosure of the definition used is required. See also some of the sample statements of activities in section 2 of this publication.

7.04

Note X: Measure of Operations

In its statement of activities, the center includes in its definition of *operations* all revenues and expenses that are an integral part of its programs and supporting activities. Investment income, including net realized and unrealized gains and losses, earned in excess of the center's aggregate authorized spending amount, and contributions to temporarily and permanently restricted net assets are recognized as nonoperating support, revenues, gains, and losses.

7.05

Note X: Measure of Operations

The society includes in its definition of *operations* all income and expenditures relating to its orchestra and supporting activities. Investment income, including net realized and unrealized gains and losses, earned in excess of (or less than) the society's authorized spending rate is recognized as nonoperating income.

7.06

Note X: Results of Operations

The entity has defined a measure of operations that considers all revenues and expenses to be related to operations, except endowment gains, expendable gifts invested in the endowment, expendable capital gifts, changes in the equity of [*Affiliated Entity*], and certain other additions, which are included in the category called "other changes."

7.07

Note X: Measure of Operations

The foundation includes in its measure of operations all revenues and expenses that are an integral part of its programs and supporting activities and excludes permanently restricted contributions, contributions for capital construction and art acquisition, realized and unrealized gains and losses on investments, and changes in net assets related to collection items not capitalized.

7.08

Note X: Measure of Operations

ABCD Entity includes in its measure of operations the following:

- All revenues and expenses that are an integral part of its programs and supporting activities
- Net assets released from restrictions to support operating expenditures
- An amount equal to 5 percent of the average value of endowment assets (restricted and unrestricted assets designated for long-term investment) at the end of the prior four fiscal quarters
- An amount equal to the lower of the average unrestricted bequests over the immediate past five fiscal years, or the unrestricted bequests in the current fiscal year

ABCD excludes from its measure of operations the following

- Contributions from and changes in the value of split-interest agreements
- Investment return, net of amounts made available for operating purposes
- Additions to permanently restricted net assets
- Bequests in excess of the immediate past-five-fiscal-year average

CONTRIBUTIONS RECEIVED, INCLUDING GOVERNMENT GRANTS

7.09

See also the examples relating to contributions receivable in section 6.

7.10

FASB ASC 958-605-45 allows entities a choice of how to report the following:

1. Donor-restricted contributions whose restrictions are met in the same reporting period—either as unrestricted revenue, or as temporarily restricted revenue, and as net assets released from restrictions, provided that an NFP has a similar policy for reporting investment gains and income, reports consistently from period to period, and discloses its accounting policy.
2. Gifts of long-lived assets and gifts of cash restricted for the acquisition of long-lived assets as revenue, either ratably over the useful life of the assets, (if it is an NFP's accounting policy to imply a time restriction that expires over the useful life of the donated assets), or in full immediately upon placing the assets in service.

The method used must be disclosed.

7.11

Note X: Contributions

The entity reports gifts of cash and other assets as restricted support if they are pledged or received with donor stipulations that limit the use of the donation. When a donor restriction expires, that is, when a stipulated time ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the statement of activities as net assets released from restriction. All long-term contributions receivable at June 30, 20X2, represent temporarily restricted net assets and are due in one to five years.

Contributed assets are recorded at fair value when the entity obtains possession or an unconditional promise to give. Contributed professional services are reflected in the financial statements. However, a substantial number of volunteers have donated their time to the program services and fund-raising campaigns of the entity, which is not reflected in the financial statements inasmuch as applicable recognition criteria are not met.

Gifts of long-lived assets without explicit donor restrictions are reported as temporarily restricted support. The value of the long-lived asset is released from restriction ratably over the useful life of the asset.

Donor-restricted contributions, whose restrictions are met in the same reporting period, are reported as unrestricted contributions.

7.12

Note X: Accounting for Contributions

All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods, or are restricted by the donor for specific purposes are reported as temporarily restricted or permanently restricted support that increases those net asset classes. Unconditional promises to give, which do not state a due date, are presumed to be time-restricted by the donor until received and are reported as temporarily restricted net assets.

A donor restriction expires when a stipulated time restriction ends, when an unconditional promise with an implied time restriction is collected, or when a purpose restriction is accomplished. Upon expiration, temporarily restricted net assets are reclassified to unrestricted net assets and are reported in the statement of activities as net assets released from restrictions. Restricted contributions received in the same year in which the restrictions are met are recorded as an increase to restricted support at the time of receipt and as net assets released from restrictions. Permanently restricted net assets include the principal amount of contributions accepted with the stipulation from the donor that the principal be maintained in perpetuity, and only the income from investment thereof be expended for either general purposes or a purpose specified by the donor.

7.13

Note X: Revenue Recognition and Deferred Revenue

Contributions received are considered to be available for use unless specifically restricted by the donor. Conditional contributions are recognized as revenue when the conditions on which they depend have been substantially met. Contributions are recorded at fair value, which is net of estimated uncollectible amounts.

The entity records contributions as temporarily restricted if they are received with donor stipulations that limit their use either through purpose or time restrictions. When donor restrictions expire, that is, when a time restriction ends or a purpose restriction is fulfilled, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. It is the entity's policy to record temporarily restricted contributions, as well as donor-restricted income earned on permanently restricted net assets, received and expended in the same accounting period, in the unrestricted net asset class.

Contributions that the donor requires to be used to acquire long-lived assets (for example, land, buildings, leasehold improvements, furniture, fixtures, and equipment) are reported as temporarily restricted until the long-lived assets have been acquired and placed in service, at which time the entity reflects the expiration of the donor-imposed restriction as a reclassification included in net assets released from restrictions.

7.14

Note X: Revenues, Expenses, Gains, and Losses

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments, and other assets or liabilities, are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or law. Expiration of temporary restrictions on net assets (that is, the donor-stipulated purpose has been fulfilled or the stipulated time period has elapsed, or both) are reported as reclassifications between applicable classes of net assets.

Contributions, including unconditional promises to give, are recognized in the period received. Conditional promises are not recognized until they become unconditional, that is, when the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at estimated fair value. Contributions to be received after one year are discounted at an appropriate discount rate commensurate with the risk involved. Amortization of discount is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any, on the contributions. An allowance for uncollectible contributions receivable is provided based upon management's judgment, including such factors as prior collection history, type of contribution, and nature of fundraising activity.

Expendable contributions received with donor-imposed restrictions are reported as revenues of the temporarily restricted net asset class. Contributions of land, buildings, and equipment without donor-imposed restrictions concerning the use of such long-lived assets are reported as revenues of the unrestricted net asset class.

7.15

Note X: Revenues

Membership dues, which are essentially contributions, are recognized as revenue when such income is received. General support, including endowment gifts and pledges as well as any other unconditional promises to give, is recognized as revenue in the period promised, net of estimated uncollectible amounts, which were approximately $425,000 during the year ended June 30, 20X2. Amounts expected to be collected within one year are recorded at their net realizable value, and amounts expected to be collected beyond one year are recorded at the present value of estimated future cash flows. The discount on those amounts is computed using a risk adjusted interest rate applicable to the year in which the promise is received. Amortization of the discount is included in general support. An allowance for uncollectible amounts is determined using the age of the receivable, creditworthiness of parties, and historical collection experience.

The entity reports general support, including cash, as either temporarily or permanently restricted if such support is received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. However, if a donor restriction expires in the same reporting period that the contribution was made, such contribution is reported as unrestricted support in the statement of activities.

7.16

Note X: Contributions

All contributions are considered to be available for unrestricted use except endowment or other funds specifically restricted by the donor. Contributions are received principally by the entity's chapters and are shared with National Headquarters in accordance with the entity's policy. Approximately 50 percent of gross contributions received during the years ended June 30, 20X2 and 20X1, were allocated to National Headquarters to support national research programs and other program services and related supporting services.

Bequests

The entity records bequest income at the time it has an established right to such bequest and the proceeds are measurable. Bequests are received principally by the entity's National Headquarters and are shared with the entity's chapters.

7.17

Note X: Bequests

Under guidelines established by its board of directors, the entity earmarks an amount equal to 90 percent of total unrestricted bequests received for long-term investment, subject to its annual operating requirements. Accordingly, in the year ended September 30, 20X2, $2,293,747 from the change in unrestricted net assets from operations and $3,068,198 from nonoperating income was designated for long-term investment. In the year ended September 30, 20X1, $1,450,093 from the change in unrestricted net assets from operations and $1,730,031 from nonoperating income was designated for long-term investment.

7.18

Note X: Campaign

An annual fund-raising campaign is conducted each fall to obtain donations and pledges to fund the subsequent year's operations. Accordingly, a receivable is recorded at year-end for outstanding campaign pledges with an allowance for amounts estimated to be uncollectible. Substantially, all of the pledges receivable at June 30, 20X2, are from corporations and individuals. The federation maintains reserves for potential uncollectible pledges which, in the aggregate, have not exceeded management's expectations. After two years, uncollected campaign pledges are written off.

Donor-designated pledges are accounted for as a liability until disbursed to the designated agency. These amounts are not recorded as revenue by the federation, but are reported as part of campaign results, from which the amounts are then deducted to arrive at campaign revenue.

7.19

Note X: Outstanding Legacies

The entity is the beneficiary under various wills and trust agreements, the total realizable amounts of which are not presently determinable. The entity's share of such bequests is recorded when the probate courts declare the testamentary instrument valid, and the proceeds are measurable.

7.20

Note X: Contributions

Contributions, bequests, and specific-purpose contributions included in nonoperating revenues are as follows:

	For the Year Ended June 30	
	20X2	*20X1*
Government agencies:		
National Endowment for the Arts	$ 1,079	$ 1,225
[*State*] Council on the Arts	448	400
[*City*] Department of Cultural Affairs	206	204
	1,733	1,829
Foundations and corporate support:		
Foundations (excluding new production funding)	1,613	1,661
[*Performing Arts Center*] Corporate Drive	1,572	1,677
Corporations (excluding new production funding)	1,220	1,151
	4,405	4,489
Individuals and other entities:		
The [*XXX*] Opera Guild	7,305	9,921
Patrons	10,621	8,172
Subscribers	190	407
Major gifts	5,564	5,142
[*XXX*] Opera Fund	1,673	949
Raffle	521	873
New production funding	3,550	6,150
Galas and benefits	4,124	2,838
Special project funding	1,173	1,877
Bequests	2,601	546
Other	856	390
	38,178	37,265
	$44,316	$43,583

7.21

Note X: Federated Fund-Raising Agreements

The entity's divisions have agreements with various United Way agencies across the United States to participate in solicitations for contributions from employees of businesses and industrial communities.

The amount the entity recognized as support from the United Way campaigns of approximately $36,664,000 for the fiscal year ended June 30, 20X2 is based primarily upon formulas contained in the agreements. These amounts are net of United Way fund-raising expenses. The divisions received approximately $4,893,000 from other fund-raising entities for the fiscal year ended June 30, 20X2.

7.22

Note X: Federated Services

Support from the public received through allocations from federated services was as follows:

	20X2	*20X1*
United Way of [*City*]	$2,032,539	$2,062,542
United Way of [*Region*]	258,273	259,078
United Way of [*County*]	135,820	166,333
Other	271,132	296,913
	$2,697,764	$2,784,866

The $2,697,764 previously shown was pledged to the entity before September 30, 20X2, and has been recorded as "public support" in the statement of activities for fiscal 20X2. Such amount is paid to the entity over a period of months and is expected to be fully paid in fiscal 20X3. The $834,413 reflected in the statement of financial position at September 30, 20X2 as contributions receivable from the United Way represents that portion of the previous $2,697,764, which is unpaid at that date.

7.23

Note X: State Grant

The association received an allocation from [*State*] under the [*Program*]. The purpose of these funds is to provide to pupils attending eligible nonpublic schools certain materials and auxiliary services routinely made available to students in public schools. The value of such allocations, $48,115 for 20X2 and $43,303 for 20X1, has been included in the Statement of Activity as both support and an expense.

The actual purchase of such materials is made by the [*Public School District*]. The school district deducts a fee equal to 4 percent of the allocation to offset related administrative, accounting, and handling service costs. Items purchased remain the property of the school district.

The association also received a grant from [*State*] of $8,758 ($10,732 in 20X1) to partly defray administrative costs related to the prior school year. These grants are recorded as other support and revenues when received because it is not possible to estimate the amount of the grant from year to year.

7.24

Note X: Research Grants and Contract Revenues **[Portion of Accounting Policies Note]**

Revenues from grants and contracts are recognized according to the specific agreement. Generally, revenues from restricted grants are recognized in the period of the grant award, whereas revenues from cost reimbursement contracts are recognized to the extent of project expenses incurred. Grants and contracts are subject to audit by the awarding agency. At December 31, 20X2, the institute has conditional grants and contracts aggregating approximately $7,600,362, which will be recognized as revenues as related project expenses are incurred.

7.25

Note X: Grant Revenue [Portion of Accounting Policies Note]

Grant revenue on cost-reimbursement grants or contracts is recognized when the society requests reimbursement from granting agencies after the program expenditures have been incurred. As such, the society recognizes revenue and records a receivable for the reimbursement amount from the granting agency. Such grant programs are subject to independent audit under the Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and review by grantor agencies. Such review could result in the disallowance of expenditures under the terms of the grant or reductions of future grant funds. Based on prior experience, the society's management believes that costs ultimately disallowed, if any, would not materially affect the combined financial position of the society.

Pass-Through Gifts

7.26

Certain entities, such as community foundations, conduct fund-raising campaigns to raise funds for other (member) agencies. The amounts raised are usually distributed to the participating agencies based upon a predetermined formula. However, as part of the campaign, the foundation might receive contributions designated for one or more specified agencies. These should be accounted for as agency transactions, that is, a liability to the designated agency should be recorded using the guidance provided in FASB ASC 958-605. However, if the donor grants the foundation variance power, that is, the unilateral ability to override the donor's designation, the transaction should be treated as a contribution.

7.27

Note X: Campaign Funds Payable to Member Agencies [Portion of Accounting Policies Note]

Pledges that are designated by donors to one or more of [*Entity's*] member agencies are recorded as campaign funds payable to member agencies. Cash received from campaigns is allocated to each participating member agency in the ratio of designated pledges from the relevant campaign, together with the pro rata share of undesignated pledges, to the total cash received. Prior to the monthly distribution of the campaign receipts to the member agencies, Board-approved expenses are deducted and recorded as administrative charges for raising funds on behalf of others.

7.28

Note X: Purpose of the Entity [Portion of Accounting Policies Note]

The campaign collects voluntary contributions and distributes them to its federated groups and other charitable entities in accordance with donor designations. In accordance with the rules and regulations of the campaign, undesignated contributions are allocated to the XXX activities programs up to X percent of gross pledges. All expenses are charged to each federated group and charitable entity in proportion to their share of support from the campaign.

7.29

Note X: Agency Transactions [Portion of Accounting Policies Note]

As part of its annual fund-raising campaign, the entity receives gifts that the donor designates for another entity. These are considered agency transactions, not contributions to the entity. The entity recognizes a liability to the designated beneficiary of the gift. However, if the gift is of a nonfinancial asset, for example, equipment, it is the entity's policy not to recognize the liability.

7.30

Note X: Amounts Raised in Campaigns

Public support on the statement of activities is presented net of estimated campaign expenses and shrinkage of the campaigns. [*Entity*] includes funds raised in campaigns that distribute directly to its member agencies if [*Entity*] has had substantial involvement in that campaign. The following table presents gross pledges raised by [*Entity*] and the reconciliation to net amounts raised in campaigns.

Gross pledges	$15,149,789
Shrinkage	(732,028)
Campaign expenses	(1,202,931)
Net pledges	$13,214,830

7.31

Balance Sheet [Portion]

Assets	
Pledges receivable (net of allowance for uncollectible pledges of $882,323)	9,292,740
Other assets	—
Liabilities	
Campaign funds payable to member agencies	10,652,647
Other liabilities	—

7.32

Statements of Activities [Portions]

Changes in Unrestricted Net Assets	
Amounts Raised in Campaigns (Net of Campaign Expenses and Shrinkage—See Note X)	
Campaign No. 1	$ 6,104,352
Campaign No. 2	1,594,976
State campaigns	2,963,224
Local campaigns	717,359
Private campaigns	1,834,919
Total net amounts raised in campaigns	13,214,830
Less amounts raised on behalf of others	12,521,637
Public support designated to [*Entity*]	693,193
Revenue, Gains, and Other Support	
Administrative charges for raising funds on behalf of others	2,462,519
Net campaign results and revenues	
Campaign results:	
Pledges	$10,143,374
Less: uncollectible pledges	(1,264,000)
Net campaign results	8,879,374
Amounts distributed to participating agencies in accordance with donor designations	7,794,355
Amounts withheld to cover operating expenses	1,085,019
Revenues:	
Interest	14,335
Total support and revenue	$ 1,099,354

7.33

Note X: Donor Advised Funds [Portion of Significant Accounting Policies Note]

The university receives gifts from donors under donor-advised fund agreements (DAFs). These funds are owned and controlled by the university and are separately identified by the donor. A substantial portion of the gift must be designated to the university. The balance may be used to support other approved charities. The donors have advisory privileges with respect to the distribution of certain amounts in the funds. DAFs are recorded in other changes in unrestricted net assets at the full amount of the gift. Transfers of funds to other charitable entities are recorded on the statement of activities as a reduction to other changes in unrestricted net assets at the time the transfer is made. At August 31, 20X2 and 20X1, approximately $139,000,000 and $180,000,000, respectively, of DAFs are not designated to the university.

Challenge Grants, Other Conditional Promises to Give, and Intentions to Give

7.34

Note X: Conditional Promise to Give

At June 30, 20X2, the entity had a conditional matching promise to give of $4,704,699 benefiting the [*Program*]. If matching funds of that amount are raised by December 31, 20X2, the entity will receive forgiveness of notes payable of $3,136,466 and cash contributions of $1,568,233. The entity has raised $3.1 million in cash from private and internal sources, and another $600,000 in promises to give, and expects the entire match to be completed and verified by December 31, 20X2.

7.35

Note X: Contracts and Grants

The university has been awarded approximately $9,900,000 in contracts and grants at September 30, 20X2, which have not been received or expended. These awards, which represent commitments of sponsors to provide funds on a cost-reimbursement basis for research and training projects, will not be reflected in the financial statements until reimbursable activities have been conducted in accordance with the provisions of the grants.

7.36

Note X: Federal Grants

The museum was awarded a grant of $900,000 under the National Endowment for the Humanities (NEH) Challenge Grant Program. The award is subject to certain conditions, including availability of federal appropriations in the amount of $300,000 per year for each of three years beginning October 1, 20X2 and matching by the museum, in the ratio of 1:3 by nonfederal contributions.

To date, the museum has raised approximately $870,000, including pledges but excluding the NEH grant, in connection with this fund-raising effort. Management anticipates that sufficient funds will be raised to satisfy the full 1:3 match condition of the NEH grant.

7.37

Note X: National Endowment for the Humanities

During fiscal 20X1, the college received approval for an $800,000 challenge grant from the National Endowment for the Humanities (NEH). The grant will be used to establish perpetual endowments for the college's humanities programs, specifically in scholarships ($300,000), faculty ($300,000), and library ($200,000).

NEH will fund $200,000, which is contingent on funding by Congress, and the college is required to raise matching funds of $600,000 over a three-year period, which commenced October 1, 20X1. The college's matching funds must include cash contributions of at least $200,000; the remaining $400,000 may include cash contributions or contributions other than cash.

At June 30, 20X2, the college has raised $161,331 in cash contributions. In anticipation of successfully meeting subsequent fund-raising requirements and future funding by Congress, such amounts have been recorded in a separate fund in the permanently restricted class of net assets.

7.38

Note X: Challenge Grant

In 20X1, the museum was awarded a $500,000 grant by the National Endowment for the Arts (NEA) to assist in the establishment of a 10-year term endowment for the fine arts exhibitions ($300,000) and to create a 10-year working capital reserve ($200,000). Under the terms of the grant, the museum must meet certain terms and conditions by June 30, 20X3, including the collection of $1,500,000 of eligible matching contributions designated for the fine arts endowment fund. As of June 30, 20X2, the eligible matching amounts are reflected in the financial statements as follows:

Collected	$ 400,000
Contributions receivable, from living donors	180,000
Bequests, from estates in the process of settlement	620,000
Total	$1,200,000

7.39

Note X: Third-Party Reimbursement Arrangement

The entity receives a substantial portion of its revenues from [*State*] under a grant with the State's Department of Community Affairs. This grant is renewed on an annual basis with the level of funding determined annually. Revenue is recognized on a reimbursement basis only to the extent of allowable expenses incurred. The grant requires both in-kind and cash matches as follows:

Grant Period	*Grant*	*Cash Match*	*In-Kind Match*
11-1-X1 to 10-31-X2	[*grant number*]	$6,846	$40,200
10-1-X2 to 9-30-X3	[*grant number*]	$7,218	$42,480

The entity met its cash match and met its in-kind match through the contribution of fruit and vegetables from [*State*] Farm Share and from services contributed by law students. These in-kind contributions were not recorded in the accompanying financial statements because, as pass-through gifts, they did not meet the recognition criteria of generally accepted accounting principles; however, they meet the requirements for in-kind match for the entity's grant with the Department of Community Affairs.

7.40

Note X: Bequests

The entity has also been named beneficiary in a number of bequests. These gifts have not been recorded in the accompanying financial statements because the donors' wills have not yet been declared valid by the probate court, and the value of the amounts to be received is not yet determinable.

Entity officials believe that the fair market value of assets to be received could be as much as $3,300,000.

7.41

Note X: Endowment Challenge Grant

During fiscal 20X1, the museum was awarded an $800,000 endowment challenge grant by the National Endowment for the Arts (NEA). This three-to-one challenge grant requires the museum to generate additional endowment funds of $2,400,000, while maintaining a base-year level of operating support, as defined, during the grant period (September 1, 20X1 through June 30, 20X5).

As of June 30, 20X2, the museum has received matching endowment gifts and pledges scheduled for payment during the grant period aggregating $1,847,687 and has more than maintained the required base level of operating support to date.

7.42

Note X: Testamentary Gift

In February of 20W8, the entity was notified of a gift through an estate. The gifted assets were placed in trust by the estate to be held while administration of the estate is completed. The assets consist primarily of common stock with a market value of $12,473,919 at the effective date of the gift, November 16, 20W9. As of August 31, 20X2 and 20X1, the estate has released approximately 75 percent of the assets of the trust. A portion of the released assets ($5,200,000 of common stock) was used to fund the frozen Musicians' Pension Plan as discussed in note [*number*]. The estate has provided for certain contingencies in its initial allocation of assets to the trust. However, the amount of the remaining distributions from the trust may be adjusted for any cost of estate administration in excess of the amounts estimated. Remaining distributions are expected in December 20X3. The entity recorded the estimated fair value of this contribution in fiscal 20X1 in the unrestricted board-designated fund.

7.43

Note X: Capital Contributions Received

The entity was named as a beneficiary in the will of the late [*Donor*]. Pursuant to the will, certain assets of the estate are to be contributed to the entity as permanent endowment, providing that such contribution qualifies for a charitable deduction on the estate tax return filed with the IRS. In 20X2, even though the audit of the estate tax return was not complete, the entity requested that the court require that the personal representative of the estate make a partial distribution of estate assets to the entity. To accomplish this transfer, the entity entered into agreements with the personal representatives of the estate and the trustees of the [*Donor*] trust. The agreements stipulate the assets were to be distributed to an escrow account and that the entity could buy and sell securities held in escrow, providing the principal balance originally received from the Estate is left in the escrow account. The income earned from the assets held in escrow can be transferred to the operating accounts of the entity and will become the unrestricted asset of the entity. Also see note [*number*]: Contingencies.

In connection with the agreements, partial distribution of assets of the [*Donor*] trust and estate was made on February 22, 20X2. This distribution has been recorded as permanently restricted revenue at the fair market value of the assets of $27,664,000 on that date. In addition, estimated future distributions of $15,000,000 are included in bequests receivable.

[*Additional disclosure regarding this matter is included under a separate note, Contingencies, as in the following example.*]

As disclosed in note X, [*brief summary of facts*]. Should the IRS determine that the contribution of these assets to the entity does not qualify as a charitable contribution, the entity will be required to return the principal balance of the assets held in escrow to the estate for redistribution to a qualified charitable entity. Accordingly, these assets have been classified as restricted assets in the balance sheet. The entity believes the likelihood of these assets being returned to the estate is remote.

Contributions Other Than Cash and Marketable Securities

7.44

Note X: Contributions

Contributions of services are recognized when they are received if the services (*a*) create or enhance nonfinancial assets, or (*b*) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not donated. During 20X2, the value of contributed services recognized as revenues in the accompanying Statement of Activity and Changes in Net Assets was $308,000 and included consulting, legal, travel, and computer-related services.

In-kind contributions consist of donated computer system equipment and services associated with the installation of the equipment. The estimated fair value of these donations was $109,260 and $117,110 for the years ended January 31, 20X2 and 20X1, respectively, and they are reflected as revenues in the accompanying Statement of Activity and Changes in Net Assets.

7.45

Note X: In-Kind Services and Materials

Contributed services of clinic personnel and medical supplies of $718,000 and $263,000 have been reflected in the financial statements as in-kind contributions during 20X2 and 20X1, respectively. Additionally, a substantial number of volunteers have donated significant amounts of time to the [*Entity*] in various capacities. However, these services have not been recognized, inasmuch as such services either do not require specialized skills or would not typically be purchased had they not been provided by donation. The value of these services is not readily determinable.

7.46

Note X: Contributed Services

Contributed services of professional carpenters, singers, and orchestral players are recognized as in-kind revenues at their estimated fair value when they create or enhance nonfinancial assets, or they require specialized skills, which would need to be purchased if they were not donated; these amounted to approximately $35,200 for 20X2 and $31,250 in 20X1.

Over 770 people participated in the center's volunteer program during the fiscal year ended September 30, 20X2 (740 in 20X1). Community members volunteered as ushers, house managers, tour guides, administrative assistants, advisors, and trustees. A dollar valuation of their effort is not reflected in the financial statements because it does not meet the criteria for recognition. However, volunteer hours for the years ended September 30 were approximately as follows:

	20X2	*20X1*
Total volunteer hours	89,370	72,600

7.47

Note X: Contributed Services

Volunteer services have been performed by a substantial number of scientific peer reviewers who have contributed significant amounts of their time to the entity. The entity has valued and recorded these contributed services, which are necessary for it to carry out its programs. The entity's management estimates that approximately 55,000 hours have been contributed by scientific peer reviewers and has valued such services at approximately $4,264,000.

7.48

Note X: Donations-In-Kind and Contributed Services

Material gifts-in-kind items used in the entity's program (for example vehicle, free rent, equipment, and so on) and donated goods distributed (for example, clothing, furniture, foodstuffs, and so on) are recorded as income and expense at the time the items are received, which is normally also the time they are placed into service or distributed.

Goods donated for sale in the entity's thrift stores are recorded as contributions and processed donations-in-kind on the basis of a percentage of sales income determined by appraisal studies.

Contributed land, buildings, and equipment are recorded at fair value at the date of donation as unrestricted support and revenue unless the use of such contributed assets is limited by a donor-imposed restriction.

Contributed services are reported as contributions at their fair value if such services create or enhance nonfinancial assets or would have been purchased if not provided by donation, require specialized skills, and are provided by individuals possessing such specialized skills.

7.49

Note X: Gifts-In-Kind

During 20X2, [*Entity*] received medical goods and supplies with an estimated fair value of $3,882,000 to be distributed in Russia. The materials had been donated to another U.S. charity that facilitated the distribution of those goods through [*Entity*] acting as an agent. Accordingly, these have not been recognized as revenues or expenses of [*Entity*].

Split-Interest Agreements, Including Related Assets and Liabilities

7.50

See chapter 6 of the AICPA Audit and Accounting Guide *Not-for-Profit Entities* for further discussion of this topic.

7.51

Note X: Split-Interest Agreements

The university's split-interest agreements with donors consist primarily of charitable gift annuities, pooled income funds, and irrevocable charitable remainder trusts for which the university serves as trustee. Assets are invested, and payments are made to donors or other beneficiaries, or both, in accordance with the respective agreements.

Contribution revenue for charitable gift annuities and charitable remainder trusts is recognized at the date the agreement is established. In addition, the present values of the estimated future payments to be made to the respective donors or other beneficiaries, or both, under these agreements are recorded as liabilities. Contribution revenue for pooled income funds is recognized upon establishment of the agreement, at the fair value of the estimated future receipts discounted for the estimated time period to complete the agreement.

The present value of payments to beneficiaries of charitable gift annuities and charitable remainder trusts and the estimated future receipts from pooled income funds are calculated using discount rates, which represent the risk adjusted rates in existence at the date of the gift. Gains or losses resulting from changes in actuarial assumptions and accretions of the discount are recorded as increases or decreases in the respective net asset class in the Statement of Activities.

7.52

Note X: Split-Interest Agreements

Split-interest agreements represent trusts with living income beneficiaries in which the university has a residual interest. The discounted present value of any income beneficiary interest is reported as a liability in the statement of financial position based on actuarial tables established by the IRS using discount rates ranging from 3 percent to 6 percent. Discount rates used apply to the year the gift was received and consider market and realizability factors, as applicable. Gifts subject to such agreements are recorded as revenue, net of the income beneficiary share, at the date of the gift. Actuarial gains or losses are included in "Change in value of split interest agreements" in the statement of activities. Resources that are expendable upon maturity are classified as temporarily restricted net assets; all others are classified as permanently restricted net assets.

7.53

Note X: Split-Interest Agreements

The entity's investments include deferred giving vehicles subject to split-interest agreements. Three different types of agreements are currently maintained: charitable gift annuity, charitable remainder unitrust, and pooled income fund.

Charitable gift annuities are unrestricted, irrevocable gifts under which the entity agrees, in turn, to pay a life annuity to the donor or designated beneficiary. The contributed funds and the attendant liabilities immediately become part of the general assets and liabilities of the entity, subject to the entity's maintaining an actuarial reserve in accordance with [*State*] law. Charitable remainder unitrust gifts are time-restricted contributions not available to the entity until after the death of the donor, who, while living, receives an annual payout from the trust based on a fixed percentage of the market value of the invested funds on December 31 of each year. The pooled income fund comprises donations that are combined in bond and equity mutual fund investments. Contributors receive a pro rata share of the actual ordinary income of the fund until their death, at which point the investment asset share of the donors becomes available to the entity.

The entity initially values deferred gifts of cash at face value and those of equities at fair value; these values are then actuarially discounted. Published IRS discount rates are employed to determine the net present value of both contributions and liabilities pertaining to these deferred giving arrangements.

Of the $26,775,000 recorded as Investments in the Statement of Financial Position, approximately $3,795,000 represents split-interest agreements. The associated liabilities total approximately $1,955,000.

7.54

Note X: Charitable Lead Trusts Receivable

The entity is the beneficiary of the income from two charitable lead trusts that it does not administer. The present value of income to be received in future years is recorded as charitable lead trusts receivable. As of December 31, 20X2, the present value of principal and imputed interest at approximately 6 percent to be received through the year 20Y6 is as follows:

Years Ending December 31	*Present Value*	*Imputed Interest*	*Total Income Receivable*
20X3	$107,139	$ 46,963	$ 154,102
20X4	100,726	53,376	154,102
20X5	94,697	59,405	154,102
20X6	89,029	65,073	154,102
20X7–20Y6	596,287	790,916	1,387,203
	$987,878	$1,015,733	$2,003,611

7.55

Note X: Planned Gifts (Legacies and Bequests, Beneficial Interest in Trusts, and Gift Annuities)

The society is the beneficiary of planned gifts under bequests, other testamentary documents, trusts, and similar deferred contributions. The assets from a bequest or a contribution may be given directly to the society or may be put in the care of a trustee, with the society being designated as having a full or partial beneficial interest in the trust (BIT). Certain gifts are considered split-interest agreements whereby the society receives benefits that are shared with either the donor or third party beneficiaries.

Both deceased donors, through a will, and living donors may restrict their gift to a specified purpose or geographic area (a purpose restriction), or defer their gift through use of a nonperpetual trust (a time restriction). Such gifts are classified as temporarily restricted revenues. A purpose restriction is satisfied when the society incurs expenses satisfying the purpose restriction. A time restriction is satisfied when the donor stipulated time has elapsed. Gifts may also be permanently restricted under a perpetual trust. See the following text for a further description of nonperpetual trusts and perpetual trusts.

Legacy and Bequests Receivable

Direct gifts of assets are recorded at their estimated fair value as public support (legacy or contribution revenue) when the society has received an unconditional promise to give. Subsequent adjustments to the fair value are recognized as public support consistent with the initial recording of the gift. The society considers a bequest unconditional when the probate court declares the testamentary instrument valid, and the proceeds are measurable.

Beneficial Interests in Trusts

Nonperpetual trusts are trusts in which donors have established and funded trusts under which specified distributions are to be made to a designated beneficiary or beneficiaries over the trust's term. Nonperpetual trusts are recorded at their estimated fair value based on the present value of the society's estimated future cash receipts from the trust. In fiscal year 20X2 and 20X1, based on then current financial market conditions, the society estimated the present value of nonperpetual trusts using an investment return rate (net of trustee fees and other expenses) of 7.25 percent and 7.50 percent, and a discount rate of 4.50 percent and 5.00 percent respectively, commensurate with the risks involved. The carrying value of the initial gift of the nonperpetual BIT is recognized as temporarily restricted public support (legacy or contribution revenue, depending upon the initial source of the gift). Any subsequent adjustments to the nonperpetual BIT are recorded as a change in value of split-interest agreements.

Perpetual trusts are trusts under which the society will receive income distributions in perpetuity, but will never receive the corpus (principal). Perpetual trusts are initially recorded as permanently restricted legacy or contribution revenue, depending on the initial source of the gift, at the fair value of the society's interest in the trust assets at the time of the gift. Subsequent changes to the trust's fair value are recognized as permanently restricted net unrealized gains or losses. Income received from the trusts is recognized as temporarily restricted or unrestricted investment income, depending on the existence or absence of donor-imposed restrictions.

The society uses significant unobservable inputs (level 3, as defined in note [*number*]) to estimate the fair value of BITs as of August 31, 20X2. The need to use unobservable inputs generally results from the lack of an active market or marketplace with respect to BITs. The society's level 3 BITs total approximately $270,257,000 at August 31, 20X2, and includes both nonperpetual and perpetual trusts, the interest of which cannot be traded in an active market or marketplace. Therefore, no significant observable market data for these instruments is available.

The fair value of perpetual trusts is based on the fair value of the underlying trust assets. As trust statements are not received as of August 31 for each trust, the fair value, of the underlying assets, as of the various dates, is adjusted based on changes in the relevant market indexes from the date of the trustee statement to year-end that correlate to the estimated asset allocation of the underlying assets. The management of the assets within the various trusts, including purchase and sale decisions, is performed by the respective trustee, and the society has no ability to control these decisions. Distributions from these trusts are based on the terms of the underlying trust agreement, which generally require that investment income be distributed on at least an annual basis.

The fair value of nonperpetual trusts is based on an income approach (present value techniques) using internally developed models. Assumptions are made regarding the expected rate of return on the investments in the trust, the discount rate, and the expected mortality of the individual(s) if the termination of the agreement is dependent on life expectancy. An expected rate of return on the investments in the trusts is estimated using historical investment returns for various relevant market indexes for the assumed asset allocation of the nonperpetual trusts. The discount rate used to estimate the present value of the society's interest is 4.5 percent. The expected mortality is estimated using the annuity [*Year*] tables. Each of these calculations is based on the fair value of the underlying assets of the trust. As trust statements are not received as of August 31 for each trust, the fair value of the underlying assets, as of various dates, is adjusted based on changes in the relevant market indexes from the date of the trustee statement to year-end that correlate to the estimated asset allocation of the underlying assets. Because the fair value of these trusts is derived from internal estimates of the present value of the society's interest in the underlying assets, incorporating market data when available, the amounts ultimately received could differ from the amounts reflected in the historical combined financial statements.

Gift Annuities

Gift annuities require an annuity to be paid to the donor or the donor's beneficiary, funded by the donated assets, over a designated period of time, or the beneficiary's lifetime, with the remainder becoming a gift to the society. The actuarially determined liability is recorded based on the terms of the gift, and the difference between the present value of the estimated liability and the fair value of the gift is recognized as revenue at the time of the gift. In fiscal years 20X2 and 20X1, the assumptions used in the valuation of the annuity liability include mortality in accordance with the annuity [*Year*] table and an annual investment yield rate of 6.00 percent for immediate annuities and 4.00 percent for deferred payment annuities, compounded annually, net of expenses. These rates are commensurate with the risks associated with the ultimate payment of the obligation. The society maintains assets sufficient to meet the annuity requirements stipulated by the various state laws.

The society may also be the beneficiary of an interest in trusts and other assets in situations in which it has not been notified of its interest; its interest may be conditional or revocable; or the value of its interest may not be readily ascertainable. In such circumstances, no contribution revenue has been recorded.

7.56

Note X: Beneficial Interest in Trusts

The entity receives contributions of property in which the donor or donor-designated beneficiary may retain a life interest. The assets are invested and administered by a trustee, and distributions are made to the beneficiaries during the term of the agreement. These funds are invested in debt and equity securities, and the entity records its interest in these trusts at fair value based on estimated future cash receipts discounted at a 5 percent rate commensurate with risk involved. Initial recognition and subsequent adjustments to the assets' carrying value are recognized as contribution revenue and changes in value of split-interest agreements, respectively, and are classified as permanently restricted, temporarily restricted, or unrestricted support, depending on donor-imposed purpose and time restrictions, if any.

7.57

Note X: Annuities Payable

The entity has received an annuity gift whereby the donors have contributed assets to the entity in exchange for the right to receive a fixed dollar annual return during their lifetimes. A portion of the transfer is considered to be a charitable contribution for income tax purposes.

The fair value of the annuity gift over the present value of the liability for future payments, determined on an actuarial basis, has been recognized as a restricted contribution at the date of the gift. When the terms of the annuity gift have been met, the remaining amount of the gift may be reclassified to unrestricted net assets.

The assets and corresponding liabilities (including payments currently due and the present value of the estimated future actuarial liability to annuitants) of the gift annuity at June 30, 20X2, are as follows:

	Amount
Investments	$103,074
Annuity payable:	
Current	(8,620)
Long-term	(53,458)

7.58

Note X: Annuities Payable

[*Entity*] has established a gift annuity program whereby donors may contribute assets to [*Entity*] in exchange for the right to receive a fixed-dollar annual return during their lifetime. A portion of the transfer is considered to be a charitable contribution for income tax purposes. The difference between the amount provided for the gift annuity and the present value of the liability for future payments, determined on an actuarial basis, is recognized as an unrestricted contribution at the date of the gift.

The annuity liability is revalued annually based upon actuarially computed present values. The resulting actuarial gain (loss) is recorded as other unrestricted revenue.

Change in actuarial liability consists of the following:

	Years Ended December 31	
	20X2	*20X1*
Actuarial change	$ 3,324	$ 7,387
Annuity payments	(59,029)	(54,278)
New annuity agreements written	12,000	0
	$(43,705)	$(46,891)

7.59

Note X: Annuities Payable

As part of certain donors' planned contributions, the foundation has entered into charitable gift annuity contracts whereby donors contribute assets in exchange for a guaranteed fixed-dollar annual return during the lifetimes of the donors or their designees. The foundation uses published mortality rate tables adopted by the United States Internal Revenue Service and an assumed rate of return of approximately 6 percent to 8 percent to determine the present value of the actuarially determined liability.

7.60

Note X: Pooled Income Fund

[*Entity's*] pooled income fund was established in February 20W8 and is administered by [*Bank*] as the trustee. Assets donated to the trust by a donor provide income to the donor for the remainder of the donor's life and, upon the death of the donor, the asset is transferred to the entity subject to donor restrictions. The amounts recorded reflect the fair value of the asset, net of the present value of the estimated future payments based upon the donor's life expectancy.

EARNED INCOME AND DEFERRED REVENUE

7.61

See section 6 for items related to investment income and gains.

7.62

Note X: Exchange Transactions

Exchange transactions are reciprocal transfers in which each party receives and sacrifices something of equal value, as opposed to a nonreciprocal transaction (that is, a contribution), in which a donor provides resources to support the entity's mission and expects to receive nothing of direct value in exchange. Costs related to exchange transactions that benefit the entity or the beneficiaries of the entity's programs are included with the entity's program or supporting service expenses. Costs of exchange transactions, which benefit only the recipient of the exchange and not the entity's programs or service beneficiaries, are reported separately as expenses related to exchange transactions.

For the fiscal year ended August 31, 20X2, the entity reported the following exchange transactions:

Benefits Purchased by Donors at Special Events

The entity conducts special events in which a portion of the gross proceeds paid by the participant represents payment for the direct cost of the benefits received by the participant at the event. Unless a verifiable, objective means exists to demonstrate otherwise, the fair value of meals and entertainment provided at special events is measured at the actual cost to the entity. The direct costs of the special events, which ultimately benefit the donor rather than the entity, are recorded as exchange transaction revenue and exchange transaction expense. All proceeds received in excess of the direct costs are recorded as special events support in the accompanying combined statement of activities. In fiscal 20X2, the entity reported special events support of approximately $106,184,000 and exchange transaction revenue and exchange transaction expense of approximately $31,198,000.

Sales of Donated Merchandise

The entity operates [*Thrift Shop*] and [*Program*] through which donations of used clothing, automobiles, and other merchandise are solicited from the public. The entity sells this donated merchandise to generate cash, which can then be used to support the entity's programs. In fiscal 20X2, the entity recorded approximately $16,618,000 as merchandise and other in-kind contributions in the accompanying combined statement of activities. Sales, and the corresponding cost of sales of contributed merchandise of $14,813,000, were recorded as exchange transaction revenue and exchange transaction expense. Selling and administration expenses incurred to operate the [*Thrift Shop*] and [*Program*] of $9,374,000 were also recorded as exchange transaction expense. Proceeds realized for use in the entity's programs from these activities were $5,439,000.

Other Exchange Transactions

Other exchange transaction revenues and expenses for fiscal year 20X2 are as follows:

	Revenues	*Expenses*
Sales to third parties	$ 411,000	$ 250,000
Rental income	1,229,000	439,000
Program services fees	452,000	618,000
Royalties	3,674,000	197,000
	$5,766,000	$1,504,000

7.63

Note X: Tuition and Fees

The university maintains a policy of offering qualified applicants admission to the university without regard to financial circumstances. This policy provides for financial aid to those admitted in the form of direct grants, loans, and employment during the academic year. Tuition and fees have been reduced by certain direct grants in the amount of $25,667,000 in 20X2. In addition, the university has granted tuition reductions totaling $450,000 as part of faculty compensation in 20X2; these reductions are included in salary and benefits expense.

Admission procedures require a major portion of tuition and other charges for the entire school year to be paid by the students during the month of August, prior to opening of school. Uncollected tuition charges are reflected in the accompanying balance sheets as accounts receivable. All such receivables are considered fully collectible; accordingly, no allowance for uncollectible amounts has been provided.

7.64

Note X: Tuition Revenue Recognition

Revenues from tuition and fees are reported in the fiscal year in which educational programs are predominantly conducted. Fall quarter tuition and fees, collected in the prior fiscal year, are reported as deferred revenue at June 30 of each year.

7.65

Note X: Magazine Subscriptions

Subscription revenue is recognized over the term of the subscription. The portion applicable to subsequent years is reported as deferred revenue.

7.66

Note X: Membership Dues and Unearned Dues Revenue

Membership dues are assessed on a calendar year basis. Dues collected for the subsequent membership year are presented as unearned dues revenue. Life membership dues are amortized over the expected period of life members' participation in club activities. Initiation fees are recorded as income when an individual is accepted as a member.

7.67

Note X: Operating Revenues and Expenses

Operating revenues. Ticket sales are recorded as box office revenue on a specific performance basis. Advance ticket sales representing the receipt of payments for subscription ticket sales for the next opera season are recorded as deferred revenue in the balance sheet and are recorded as revenue as specific performances are presented.

Operating expenses. In accordance with policies generally followed by performing arts entities, costumes and scenery for recurring productions are charged to expense when incurred.

Production costs (labor and materials) relating to future new productions are deferred until the year in which the production is presented.

Direct response marketing expenses related to the subscription campaign for the following season are deferred and recognized in the season when the related revenues are recognized; $2,625,000 and $2,437,000 of such expenses were reported as assets at July 31, 20X2 and 20X1, respectively. Other marketing costs are expensed when the advertising first takes place. Total marketing expense recognized was $9,350,000 and $8,994,000 in 20X2 and 20X1, respectively.

7.68

Note that the practice of recognizing all revenue for a subscription season (the same would apply to a summer school at a college) in the fiscal year in which the "majority of the performances occur" would be acceptable only if it is a large majority, so the distortion is small. If the fiscal year end falls closer to the middle of the season, the revenue should be appropriately prorated into each year.

7.69

Note X: Deferred Show Costs and Revenues

Revenues and expenses related to performances are recognized during the fiscal year in which the majority of the performances for the particular show or series occur. Annually, certain shows and series begin during the September prior to the fiscal year in which they are recognized. However, losses incurred on such shows and series prior to the end of the fiscal year are recognized when incurred.

Revenues received and expenses incurred for performances occurring in the subsequent fiscal year are deferred in the accompanying statements of financial position and included in future performance receipts and prepaid expenses, respectively. However, advertising costs are not deferred unless they are direct-response advertising that result in future benefits. The center expenses the production costs of advertising the first time the advertising takes place, except for direct-response advertising, which is capitalized and expensed when the future benefit is realized (when the show occurs); $675,000 and $407,000 of such expenses were reported as assets at September 30, 20X2 and 20X1, respectively. Other costs are expensed when the advertising first takes place. Total advertising expense recognized was $3,250,000 and $3,194,000 in 20X2 and 20X1, respectively.

7.70

Note X: Operating Revenues and Expenses

Operating revenues and expenses are presented in the statement of activity on a functional basis, classified according to the significant program activity related to the purpose for which the association exists or supporting service.

The significant activities are as follows:

Opera Activities
Represents revenues and expenses directly associated with the production and presentation of opera performances together with production costs (labor and materials) related to new operas to be presented in future periods.

Other Presentations
Represents revenues and expenses directly associated with the presentation of attractions other than opera in which the association either presents the attractions or leases the opera house to third parties.

The significant supporting services are as follows:

Opera House
Represents expenses directly associated with managing and operating the opera house at [*Center*].

General Management
Represents expenses directly related to the overall operation of the entity, which are not associated with any single program or other operating service.

Fund-Raising
Represents expenses directly associated with the solicitation of contributions for the association.

7.71

Note X: Sponsored Programs

The university receives grant and contract revenues from governmental and private sources. In 20X2, grant and contract revenues received from governmental sources totaled $237,815,000. The university recognizes revenues associated with the direct costs of sponsored programs as the related costs are incurred. Indirect costs recovered on federally sponsored programs are based on cost reimbursement rates negotiated with the university's cognizant agency, the Department of Health and Human Services. Indirect costs recovered on all other grants and contracts are based on rates negotiated with the respective party.

7.72

Note X: Earned Revenue

Revenue from government grant and contract agreements is recognized as it is earned through expenditure in accordance with the agreements.

Revenue from program service fees is recognized when the service is completed.

7.73

Note X: Merchandising Income

Net merchandising income was derived as follows for the year ended September 30, 20X2:

Sales	$11,389,827
Less cost of goods sold	(6,487,363)
Gross profit	4,902,464
Less merchandising expenses	(3,625,049)
Net merchandising income	$ 1,277,415

EXPENSES

7.74

See additional expense-related disclosures in the preceding section, "Earned Income and Deferred Revenue."

7.75

Note X: Functional Allocation of Expenses

The costs of providing museum programs and other activities have been summarized in the accompanying statement of activities. Museum programs include costs of the exhibitions and projects, curatorial activities, public service and education, and visitor services. Membership expenses represent costs associated with provision of substantive benefits to individual members. Costs associated with corporate memberships are included in fundraising expenses. Also included in fundraising expenses are costs related to the capital campaign, development, and other fundraising efforts. Management and general expenses include executive, financial administration, information systems, and personnel expenses. Rent, building maintenance, and security expenses are allocated among the functional expense categories based on staffing and space usage information.

7.76

Note X: Allocation of Certain Expenses

The Statement of Activities presents expenses by functional classification. Operation and maintenance of plant and depreciation are allocated based on square footage. Interest expense is allocated to the functional classifications that benefited from the use of the proceeds of the debt. Payments to affiliated entities are allocated to functional classifications to the extent it is practicable to do so; payments that cannot be allocated are reported in the supporting service category as "unallocated payments to affiliated entities."

7.77

Note X: Allocation of Joint Costs

[*Entity*] conducted activities that incurred joint costs for distribution of direct mail fund-raising appeals and educational information, home-based activities of furlough missionaries, and related supporting office staff, as follows:

	December 31	
	20X2	*20X1*
Costs of informational materials and activities:		
Allocated to program	$ 64,845	$ 51,270
Allocated to fund-raising	16,211	12,818
Total joint costs	$ 81,056	$ 64,088
Salaries and expenses of furlough missionaries:		
Allocated to program	$349,864	$392,012
Allocated to fund-raising	349,863	392,011
Total joint costs	$699,727	$784,023
Salaries and expenses of office staff:		
Allocated to program	$ 86,941	$ 64,896
Allocated to fund-raising	260,825	194,687
Total joint costs	$347,766	$259,583
Total joint costs allocated to program	$501,650	$508,178
Total joint costs allocated to fund-raising	$626,899	$599,516

7.78

Note X: Allocation of Joint Costs

In 20X2, the entity conducted activities that included requests for contributions, as well as program and management and general components. Those activities included direct mail campaigns, special events, and a telethon. The costs of conducting those activities included a total of $310,000 of joint costs, which are not specifically attributable to particular components of the activities. Joint costs for each kind of activity were $50,000, $150,000, and $110,000, respectively. These joint costs were allocated as follows:

Fund raising	$180,000
Program A	80,000
Program B	40,000
Management and general	10,000
Total	$310,000

7.79

Note X: Allocation of Joint Costs

For the years ended September 30, 20X2 and 20X1, the entity incurred total direct mail program costs of $59,363,336 and $61,182,412, respectively, for informational materials and activities that included fund-raising appeals, which were allocated as follows in accordance with FASB ASC 958-720:

	20X2	*20X1*
Fund-raising	$27,355,421	$27,857,083
Public affairs	29,679,226	30,648,514
General and administrative	2,328,689	2,676,815
	$59,363,336	$61,182,412

7.80

Note X: Expense Recognition

Opera production costs are reported as expenses in the fiscal year in which that opera is first performed. Opera production costs that are paid in advance of the applicable fiscal year are recorded in prepaid expense accounts and later expensed in the applicable fiscal year.

7.81

FASB ASC 958-720-45-2 states that to help donors, creditors, and others in assessing an NFP's service efforts, a statement of activities or notes to financial statements should provide information about expenses reported by their functional classification. Voluntary health and welfare entities must also present a statement of functional expenses by natural category (see section 4). If the statement of activities presents expenses by natural category, the functional expenses can be presented in a note and vice versa. Following are examples of note presentation of natural expenses and of functional expenses.

7.82

Note X: Natural Classification of Expenses

Operating expenses incurred in the fiscal year ended June 30, 20X2, were as follows:

Salaries, wages, and benefits	$343,682
Services and professional fees	69,576
Supplies	60,928
Travel and promotion	31,316
Other expenses	20,177
Student aid	82,156
Physical plant maintenance and equipment	73,799
Interest on indebtedness	14,978
Depreciation	18,749
Total	$715,361

7.83

Note X: Functional Expenses

The council incurred expenses in the conduct of the following functions for the year:

The council serves as one of the state's seven local health councils. The local health councils provide leadership in their communities to address health care issues and needs.	$ 195,981
The council provides case management, housing placement, and insurance continuation services for people with [*disease*].	733,375
The council functions as the local agency for two health care coalitions. Their primary objective is to address the prenatal and infant care needs of all pregnant women and infants.	386,026
Other functions of the council include administration, administration of agency arrangements, and other health planning services.	159,496
Total	$1,474,878

7.84

FASB ASC 958-205-50-3 requires that if an NFP discloses a ratio of fund-raising expenses to amounts raised, it should also disclose how it computes the ratio.

7.85

Note X: Fund-Raising Expense Ratio

The following presents the entity's fund-raising expense ratio for the year ended June 30, 20X2:

Total support reported on the statement of activities	$1,085,282
Plus donor-designated gifts	227,944
Total	1,313,226
Less in-kind rent and services	(73,015)
Adjusted support	$1,240,211
Fund-raising expenses	$ 96,939
Fund-raising expense ratio	7.82%

Grants Awarded to Others

7.86

See also "Liabilities" in section 6 for examples of disclosures pertaining to the liability for unpaid grants.

7.87

Note X: Grants Awarded

Grants awarded to others are recorded as an expense and a liability when approved by the [*Governing Board*] or when the recipient fulfills the conditions of the grant.

7.88

Note X: Grants and Awards

The foundation accrues grants and awards not disbursed at year end but specifically committed to designated grantees for research, health education, and medical service activities to be carried out in future fiscal years.

7.89

Note X: Grant Expenditures and Appropriations

Grant expenditures are considered incurred at the time of approval by the board of trustees or the president of the foundation for payment to a specific entity. Uncommitted appropriations that have been approved by the board of trustees but for which the recipient entity has not yet been identified are included in appropriated unrestricted net assets.

7.90

Note X: Grants and Awards

Grants awarded by the foundation usually cover a period of one year and are subject to annual renewal, as defined within the grant agreement, at the option of the board of trustees. Unexpended amounts of such annual grants are refundable to the foundation by the grantee. The foundation has expressed its intention to make a continuing annual grant in the amount of $1,000,000. Because this does not constitute a promise to give, the grant is being recorded on a year-to-year basis. The grant to the [*Institute*] amounted to $1,200,000 in 20X2.

7.91

Note X: Awards and Grants

In accordance with the entity's guidelines, it makes awards and grants for research and professional education purposes, to be disbursed in the subsequent year, equal to one-third of the shareable income, less 15 percent for administration, received from its affiliates during the current year. The liability and related expense for awards and grants are recognized at the time of notification and acceptance by the recipients. Recipients are required to meet certain qualifications and to provide accountability to the entity for funds disbursed. As of June 30, 20X2, the liability for awards and grants totals $2,653,046.

The entity's awards for research grants-in-aid, investigators, fellowships, and professional education generally cover a period of one to five years, subject to annual renewal at the option of the entity. The liability (awards payable) is recorded on an annual basis upon notification to the recipient at the time of approval or renewal.

7.92

Note X: Start-Up Activities

The entity will open a shelter in 20X3 to house the homeless. The entity will rent the facility. During 20X2, certain start-up costs were incurred to get the shelter ready to open. These costs included salaries and related costs, staff recruiting and training, rent, security, insurance, utilities, and consulting fees. These costs have been recorded as expenses in 20X2.

Taxes and Tax-Exempt Status

7.93

See also section 5 under "Contingencies and Other Uncertainties, Including Going Concern Questions" and section 6 under "Liabilities."

7.94

Note X: Tax-Exempt Status

The entity has received notification that it qualifies as a tax-exempt entity under Section 501(c)(3) of the U.S. Internal Revenue Code and corresponding provisions of [*State*] law and, accordingly, is not subject to federal or state income taxes.

7.95

Note X: Tax Status

The entity is a nonprofit voluntary health agency exempt from income tax under Section 501(c)(3) of the U.S. Internal Revenue Code. The entity has been classified as an entity that is not a private foundation and has been designated as a "publicly supported" entity. The entity prepares separate IRS Forms 990 for the National Office and for the foundation, and a combined Form 990 for the divisions.

7.96

Note X: Federal Income Taxes

Under an advance ruling dated [*date*], the IRS ruled that the entity will be treated as a tax-exempt, publicly supported entity under Section 501(c)(3) of the U.S. Internal Revenue Code until [*date*]. At that time the entity will be required to submit the information to the IRS demonstrating that it has met the requirements of the applicable regulations during the advance ruling period. If these regulations have been met, the entity will continue to be treated as a publicly supported entity. Management believes these regulations are being complied with.

7.97

Private foundations are subject to a number of specific tax rules. Notes that address some of these rules are shown in the examples that follow.

7.98

Note X: Federal Taxes

The foundation qualifies as a tax-exempt entity under Section 501(c)(3) of the U.S. Internal Revenue Code and is not subject to federal income taxes except for income from its unrelated business activities.

Under Section 4940 of the U.S. Internal Revenue Code, a federal excise tax of 2 percent is normally imposed on a private foundation's net investment income (principally interest, dividends, and net realized capital gains, less expenses incurred in the production of investment income). This tax is reduced to 1 percent when a foundation meets certain distribution requirements. In 20X2 and 20X1, the foundation qualified under Section 4940(e) of the U.S. Internal Revenue Code for a reduced excise tax rate of 1 percent.

Deferred tax expense results from certain income items being accounted for in different time periods for financial statement purposes than for federal excise tax purposes. Appropriate provisions are made in the financial statements for deferred taxes, at a 2 percent rate, in recognition of these timing differences.

7.99

Note X: Excise Tax on Net Investment Income

Tax expense differs from amounts currently payable because certain investment income is included in the statement of activities in periods that differ from those in which it is subject to taxation. The difference between tax expense and taxes currently payable is reflected as a deferred tax liability on the statements of financial position. Deferred taxes payable as of December 31, 20X2 and 20X1, are $48,560 and $19,835, respectively. For the years ended December 31, 20X2 and 20X1, tax expense consisted of the following:

	20X2	*20X1*
Currently payable	$ 79,708	$58,811
Deferred	28,725	8,019
	$108,433	$66,830

7.100

Note X: Federal Excise Tax

The foundation is recognized as exempt from federal income tax under Section 501(c)(3) of the U.S. Internal Revenue Code (IRC) and is classified as a private foundation as defined under Section 509(a). In accordance with the provisions of the IRC, the foundation is liable for an excise tax of 2 percent on net investment income as defined by the IRC. Deferred excise tax arises from unrealized gains on investments and from depreciation recognized for tax purposes on real estate investments valued at market value for financial reporting purposes.

7.101

Note X: Minimum Distribution Requirement

Certain provisions of the IRC require that the foundation make cash distributions in prescribed minimum amounts each year. As of December 31, 20X2, the foundation had distributed $1,428,928 more than the required minimum distribution. Following is a summary of the computation of the excess qualifying distributions at December 31, 20X2 that will be carried forward to 20X3.

Excess qualifying distributions carried forward from 20X1	$ 2,592,310
Qualifying distributions in 20X2	4,743,482
	7,335,792
Less: Required minimum distribution	(5,906,864)
Excess of qualifying distributions over required minimum distribution	$ 1,428,928

7.102

The tax rules applicable to clubs are somewhat different from those applicable to most other not-for-profit entities.

7.103

Note X: Federal Income Taxes

The club is a tax-exempt entity under Section 501(c)(7) of the IRC. Income derived from the use of club facilities by nonmembers and investment income are considered unrelated business income, which may be subject to federal tax. No provision has been made for federal income tax for the years 20X2 and 20X1 because the club anticipates its allowable deductions will exceed unrelated business income.

7.104

Note X: Tax-Exempt Status

The club is exempt from federal income tax under Section 501(c)(7) of the IRC. Federal income taxes are provided only when income generated from nonmember activities results in a profit to the club.

SECTION 8: FINANCIAL STATEMENTS PREPARED ON A BASIS OTHER THAN GAAP

8.01

Many smaller not-for-profit entities choose to present their financial statements on a basis of accounting other than U.S. generally accepted accounting principles (GAAP), often on the basis of cash receipts and disbursements. Also, for purposes of efficiency, some entities that prepare U.S. GAAP-basis financial statements follow certain accounting policies that differ from U.S. GAAP in that the resulting differences are considered by management and by the auditor to be immaterial. The purpose of this section is neither to encourage nor discourage such practices, but merely to provide examples for those entities that will find them helpful. If cash basis statements are presented, use of titles and captions, including words such as *revenues* and *expenses* may not be appropriate; words such as *receipts* and *disbursements* are preferable. See also the AICPA Audit and Accounting Guide *Not-for-Profit Entities* (paragraphs 14.13–.14), and the AICPA publication *Preparing and Reporting on Cash- and Tax-Basis Financial Statements* (product # 006701PDF), for further discussion.

8.02

The following is an example of a note used to describe a cash-basis presentation and the text of an AICPA auditing interpretation on the adequacy of disclosure in financial statements prepared on a non-U.S. GAAP basis.

8.03

Note X: Basis of Accounting

The accounts of the entity are maintained on the cash basis [*or modified cash basis*] of accounting and, accordingly, do not include interest and dividends receivable, amortization of premiums or discounts on fixed income securities, fixed assets, accrued interest expense, or other accrued liabilities. [*Add other items as relevant*.] [*Disclosure of the dollar effect of the omissions is optional*.]

8.04

Interpretation No. 14 of AU Section 623, *Special Reports* (AICPA, *Professional Standards*, vol. 1) is reprinted as follows.

8.05

Interpretation No. 14, "Evaluating the Adequacy of Disclosure and Presentation in Financial Statements Prepared in Conformity With an Other Comprehensive Basis of Accounting (OCBOA)," of AU Section 623, *Special Reports* (AICPA, *Professional Standards*, vol. 1, AU sec. 9623.90–.95)

14. Evaluating the Adequacy of Disclosure and Presentation in Financial Statements Prepared in Conformity With an Other Comprehensive Basis of Accounting *(OCBOA)*

.90 *Question*—Paragraph .10 of AU section 623 requires that financial statements prepared on a comprehensive basis of accounting other than generally accepted accounting principles (GAAP) include a summary of significant accounting policies that discusses the basis of presentation and describes how that basis differs from GAAP. It also states that when such financial statements contain items that are the same as, or similar to, those in statements prepared in conformity with GAAP, "similar informative disclosures are appropriate." To illustrate how to apply that statement, section 623 paragraph .10 says that the disclosures for depreciation, long-term debt, and owners' equity should be "comparable to" those in financial statements prepared in conformity with GAAP. That paragraph then states that the auditor "should also consider" the need for disclosure of matters that are not specifically identified on the face of the statements, such as (*a*) related party transactions, (*b*) restrictions on assets and owners' equity, (*c*) subsequent events, and (*d*) uncertainties. How should the guidance in section 623 paragraph .10 be applied in evaluating the adequacy of disclosure in financial statements prepared in conformity with an other comprehensive basis of accounting (OCBOA)?

.91 *Interpretation*—The discussion of the basis of presentation may be brief; for example: "The accompanying financial statements present financial results on the accrual basis of accounting used for federal income tax reporting." Only the primary differences from GAAP need to be described. To illustrate, assume that several items are accounted for differently than they would be under GAAP, but that only the differences in depreciation calculations are significant. In that situation, a brief description of the depreciation differences is all that would be necessary, and the remaining differences need not be described. Quantifying differences is not required.

.92 If OCBOA financial statements contain elements, accounts, or items for which GAAP would require disclosure, the statements should either provide the relevant disclosure that would be required for those items in a GAAP presentation or provide information that communicates the substance of that disclosure. That may result in substituting qualitative information for some of the quantitative information required for GAAP presentations. For example, disclosing the repayment terms of significant long-term borrowings may sufficiently communicate information about future principal reduction without providing the summary of principal reduction during each of the next five years that would be required for a GAAP presentation. Similarly, disclosing estimated percentages of revenues, rather than amounts that GAAP presentations would require, may sufficiently convey the significance of sales or leasing to related parties. GAAP disclosure requirements that are not relevant to the measurement of the element, account, or item need not be considered. To illustrate:

a. The fair value information that FASB ASC 320, *Investments—Debt and Equity Securities*, would require disclosing for debt and equity securities reported in GAAP presentations would not be relevant when the basis of presentation does not adjust the cost of such securities to their fair value.
b. The information based on actuarial calculations that FASB ASC 715, *Compensation—Retirement Benefits*, would require disclosing for contributions to defined benefit plans reported in GAAP presentations would not be relevant in income tax or cash basis financial statements.

.93 If GAAP sets forth requirements that apply to the presentation of financial statements, then the OCBOA financial statements should either comply with those requirements or provide information that communicates the substance of those requirements. The substance of GAAP presentation requirements may be communicated using qualitative information and without modifying the financial statement format. For example:

a. Information about the effects of accounting changes, discontinued operations, and extraordinary items could be disclosed in a note to the financial statements without following the GAAP presentation requirements in the statement of results of operations, using those terms, or disclosing net-of-tax effects.
b. Instead of showing expenses by their functional classifications, the income tax basis statement of activities of a trade entity could present expenses according to their natural classifications, and a note to the statement could use estimated percentages to communicate information about expenses incurred by the major program and supporting services. A voluntary health and welfare entity could take such an approach instead of presenting the matrix of natural and functional expense classifications that would be required for a GAAP presentation, or, if information has been gathered for the Form 990 matrix required for such entities, it could be presented either in the from of a separate statement or in a note to the financial statements.
c. Instead of showing the amounts of, and changes in, the unrestricted and temporarily and permanently restricted classes of net assets, which would be required for a GAAP presentation, the income tax basis statement of financial position of a voluntary health and welfare entity could report total net assets or fund balances, the related statement of activities could report changes in those totals, and a note to the financial statements could provide information, using estimated or actual amounts or percentages, about the restrictions on those amounts and on any deferred restricted amounts, describe the major restrictions, and provide information about significant changes in restricted amounts.

.94 Presentations using OCBOA often include a presentation consisting entirely or mainly of cash receipts and disbursements. Such presentations need not conform to the requirements for a statement of cash flows that would be included in a GAAP presentation. While a statement of cash flows is not required, if a presentation of cash receipts and disbursements is presented in a format similar to a statement of cash flows or if the entity chooses to present such a statement, for example in a presentation on the accrual basis of accounting used for federal income tax reporting, the statement should either conform to the requirements for a GAAP presentation or communicate their substance. As an example, the statement of cash flows might disclose noncash acquisitions through captions on its face.

.95 If GAAP would require disclosure of other matters, the auditor should consider the need for that same disclosure or disclosure that communicates the substance of those requirements. Some examples are contingent liabilities, going concern considerations, and significant risks and uncertainties. However, the disclosures need not include information that is not relevant to the basis of accounting. To illustrate, the general information about the use of estimates that is required to be disclosed in GAAP presentations by FASB ASC 275, *Risks and Uncertainties*, would not be relevant in a presentation that has no estimates, such as one based on cash receipts and disbursements.

SECTION 9: INFORMATION OUTSIDE OF THE FINANCIAL STATEMENTS

9.01

Financial Accounting Standards Board *Accounting Standards Codification* 958-720-45-4 encourages, but does not require, presentation of "information about an [not-for-profit entity's] NFP's major programs (or segments)," and "related non-monetary information about program inputs, outputs, and results." It acknowledges, however, that such information is generally feasible only outside the basic financial statements. Part III (Statement of Program Service Accomplishments) of IRS Form 990 also requests such information. Auditors should consider their responsibilities under Statement on Auditing Standards No. 118, *Other Information in Documents Containing Audited Financial Statements* (AICPA, *Professional Standards*, vol. 1, AU sec. 550), when such data is included in documents containing an auditor's report.

9.02

Many NFPs prepare annual reports, which include extensive narrative descriptions of the entity's programs and achievements. Also, many foundations include in such reports detailed lists of grants awarded. Examples of such narrative descriptions and lists are available elsewhere and are not included in this publication.

9.03

Bar charts, pie charts, and graphs are often used in connection with presentations of this kind of information.

9.04

Following are examples of some presentations of nonfinancial statement information (some of it also includes selected financial data) with a numeric focus.

9.05

The following example provides program-focused information.

9.06

Report of the President [*Excerpts*]

Institutional growth is demonstrated by many of the vital statistics, which tell the story of the Society's work in the year 20X2: attendance at the [*Zoo and Aquarium*] increased over 20W1 to 2,182,638 visitors (1,731,300 at the [*Zoo*] and 451,338 at the [*Aquarium*]); admissions and earned income revenues grew to $5,400,000; the circulation of the Society's magazine [*Magazine*] increased to 76,000; 21 new courses were added to the programs of the education department at the Zoo; and five new curatorial trainees joined the scientific staff in programs sponsored by the National Endowment for the Arts and the National Museum Act. Growth in all of these areas of program and revenue in 20X2 was the accomplishment of the Society's professional staff of 385 and part-time employees numbering 425.

20X2 Animal Propagation

Propagation of the collections continued to be the greatest source of Zoo animals. During 20X2, 253 mammals, 319 birds, and 288 reptiles were born or hatched at the Zoo. Today, for example, 72 percent of the entire mammal collection is captive-bred. In 20S2, 50 years ago, only 35 mammals were bred at the Zoo.

Mammal Collection, [Zoo] *at December 31, 20X2*

Order	*Families*	*Species*	*Specimens*
Marsupialia—Kangaroos, phalangers, opossums	2	6	38
Chiroptera—Bats	3	12	161+
Primates—Apes, monkeys, lemurs, marmosets, etc.	6	27	130
Rodentia—Squirrels, mice, porcupines, etc.	11	25	113+
Carnivora—Bears, raccoons, cats, dogs, others, etc.	6	29	96
Pinnipedia—Seals, sea lions, etc.	2	2	4
Proboscidea—Elephants	2	2	8
Perissodactyla—Horses, tapirs, rhinoceroses	3	6	37
Edentata—Armadillos, sloths, anteaters	2	2	3
Artiodactyla—Cattle, sheep, antelopes, camels, giraffes, deer, swine, hippopotamuses	8	33	496
Totals	45	144	1086+

In 20X2 the Department of Education developed 21 new courses, bringing to 44 the programs which the department is advertising. The staff served 4,287 students in multisession courses, 100 teachers in zoology workshops, and 1,670 adults in continuing education classes. The instructional staff was responsible for 22,213 student hours of teaching, an increase of 11 percent over 20X1.

Zoo visitor profiles have demonstrated that adults constitute the majority of zoo audiences. Therefore, the department has emphasized continuing education courses. The staff has developed popular offerings on the history of zoo medicine, animal behavior, zoo photography, and classes on zoo exhibition and design. Other new audiences include school populations of the gifted and the handicapped.

	Research Projects	*Investigator*	*20X2 Grant*
Colorado	Completion of a manuscript on the status of primates	Horace Williams	$3,350
Wisconsin/ Siberia	Partial support for continuation of Siberian crane recovery plan which is part of the U.S./Russia cooperative environmental protection program	International Crane Foundation	$6,000
U.S. Northeast	Nesting site specificity of peregrine falcons	William White	$ 200
Canada	A study of environmental factors affecting high Arctic sea ice habitat of polar bears	Sandra Jones	$3,000

9.07

The following example is from an entity whose programs are largely conducted by volunteers. In the printed report, these statistics were accompanied by pie charts showing how the volunteer hours were spent.

9.08

Statistical Highlights

	20X2	*20X1*	*20X0*
Volunteers	7,468	6,710	6,953
Volunteer hours	49,142	42,846	55,324
Volunteer hours were spent as follows—services to:			
Not-for-profit entities	24,571	12,000	27,812
Small businesses	1,475	1,283	4,150
Individuals	23,096	29,563	23,362

9.09

The following example provides general statistical and financial data.

9.10

Decade in Review Fiscal Years Ended June 30	*20X2*	*20W7*	*20W2*
Financial			
Principal sources of revenues:			
Student tuition and fees	$ 258,806,000	$ 180,260,000	$ 126,351,000
Government grants and contracts	527,189,000	409,112,000	357,732,000
Investment income and gains	691,437,000	417,780,000	401,654,000
Gifts and nongovernment grants	312,771,000	180,922,000	179,263,000
Principal purposes of expenditures:			
Instruction and departmental research	408,132,000	314,726,000	225,711,000
Organized research (direct costs)	425,223,000	355,410,000	263,772,000
Libraries	61,941,000	46,840,000	40,929,000
Student aid	65,139,000	59,092,000	39,173,000
Administration, development, and general	151,747,000	105,019,000	68,625,000
Assets:			
Investments at market	5,031,550,000	2,518,579,000	1,696,277,000
Construction in progress	107,934,000	89,100,000	81,309,000
Plant facilities net of depreciation	1,016,315,000	754,168,000	405,364,000
Other assets	1,045,006,000	1,380,432,000	945,993,000
Liabilities and net assets:			
Notes and bonds payable	729,481,000	458,175,000	331,979,000
Other liabilities	673,616,000	516,526,000	328,083,000
Total net assets	5,797,708,000	3,767,578,000	2,468,881,000
Certain financial ratios:			
Fundraising costs to funds raised	8.6%	8.8%	8.7%
Program expenses to total expenses	86.3%	84.7%	85.1%
Students			
Enrollment:			
Undergraduate	6,577	6,555	6,524
Graduate and professional	7,467	6,886	6,555
Degrees conferred:			
Bachelor degrees	1,744	1,633	1,649
Advanced degrees	2,900	2,455	2,510
Annual undergraduate tuition rate	$ 19,695	$ 14,280	$ 10,476
Faculty			
Members of the Academic Council	1,459	1,375	1,295

9.11

The following example provides information about investment policies.

9.12

Approved asset classes, policy targets, target ranges, and index benchmarks are as follows:

Asset Segment	*Target %*	*Range %*	*Index Benchmark*
U.S. core equity	25.0%	20.0–30.0	S&P 500
U.S. mid/small growth equity	7.5%	5.0–10.0	Russell Midcap Growth
U.S. mid/small value equity	7.5%	5.0–10.0	Russell Midcap Value
International core and emerging market equity	30.0%	25.0–35.0	EAFE/FC Index
Total equity	70.0%	65.0–75.0	Russell 3000
U.S. fixed income	15.0%	10.0–20.0	LBIG/C
Global fixed income	15.0%	10.0–20.0	JPM Global Government
Total fixed income	30.0%	25.0–35.0	
Cash equivalents and short term	0.0%	0.0–10.0	

9.13

Highlights FYX2—The Year in Review

A total of 2,329 individuals were provided skills training in seven African countries. In addition, the performance records of fiscal year 20X2 include the following:

- 21 [*Entity*] interest groups being developed in 16 countries
- 4 Preproject appraisal studies completed
- 2 Feasibility studies completed
- 10 Program proposals developed
- 1 New program in operational stage in [*Location*]
- 3 New programs being readied for start-up in [*Locations*]
- 32 percent of [*Entity*] budget obtained from non-U.S. government sources
- 220 Person-days of on-site technical assistance provided in 8 countries
- Management and control systems strengthened in 10 programs
- Planning ongoing for [*Entity's*] first African Development Conference to be held in [*Location*] in 20X3
- Potential sources of financial support such as corporations and foundations identified.

9.14

Highlights of 20X2

[*Entity*] provides training and technical assistance to [*Third World area*] enterprises composed of large numbers of rural people. Our training helps them to increase productivity, improve their marketing, and enhance their overall management. The results of our assistance include job creation, increased levels of income for needy people, and overall improvement in living conditions, without creating dependence on outside assistance.

We currently have a staff of over 150 persons made up primarily of highly qualified citizens of the countries where we operate. We are funded by church organizations, individuals, foundations, corporations, host country institutions, and the U.S. Agency for International Development.

In 20X2, [*Entity*] provided assistance to 260 community-based enterprises, projects, and related institutions. Over 1,000,000 men, women, and children benefited from this year's work. Annual gross revenues of the enterprises and projects we assisted were over $16,000,000, and project assets exceeded $28,000,000.

For the first time in our history, private grants and contributions for our work reached the $1 million mark. This represents nearly a 400 percent increase over the level of just five years ago.

9.15

Programs and Activities [Excerpts]

As of May 31, 20X2, [*Entity*] membership included 1,995 institutional members, 125 associate members, and 227 subscribers. Growth in the association is illustrated in the accompanying graph.

In 20X1–20X2, a total of 48 workshops on 16 topics were completed with 2,900 participants from 1,809 institutions attending. Volunteers included 80 faculty members, 52 planning committee members, and 40 on-site assistants. The 20X2–20X3 professional development season will feature 5 brand new and 11 updated workshops.

Over 1,300 members, guests, and exhibitors met in Chicago from July 8–11 for [*Entity's*] Annual Meeting. Featured were distinguished speakers from the private and public sectors who addressed issues of concern to [*members*]. Distinguished [*Member*] Awards were presented to:. . . .

Two new books were published during the year:. . . . Production of 4 new books is scheduled:. . . . 22 news releases were sent to over 200 media sources.

APPENDIX: EXCERPTS FROM AICPA AUDIT AND ACCOUNTING GUIDE *NOT-FOR-PROFIT ENTITIES*

EXCERPT FROM CHAPTER 3, "BASIC FINANCIAL STATEMENTS"

[*Paragraph 3.31 is reprinted as follows.*]

3.31 FASB ASC 958-205-55-54 provides an example of a note to the financial statements[5,6] that describes the nature of the prior period(s) information, as follows:

> The financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with GAAP. Accordingly, such information should be read in conjunction with the organization's financial statements for the year ended June 30, 20PY, from which the summarized information was derived.

[5] Chapter 14, "Reports of Independent Auditors," of the guide discusses auditors' reports on comparative financial information.

[6] Because the note discusses information that does not pertain to the current-period financial statements, the note is not considered to be part of the current-period financial statements.

EXCERPT FROM CHAPTER 5, "CONTRIBUTIONS RECEIVED AND AGENCY TRANSACTIONS"

[*Paragraph 5.133 is reprinted as follows.*]

Illustrative Disclosures

5.133 The following section provides examples of notes to financial statements that illustrate some of the disclosures discussed in this chapter.

Example 1—Donor-Imposed Restrictions

Note X: Summary of Significant Accounting Policies

All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily restricted or permanently restricted support that increases those net asset classes. However, if a restriction is fulfilled in the same time period in which the contribution is received, the organization reports the support as unrestricted.

Example 2—Promises to Give

Note X: Summary of Significant Accounting Policies

Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at fair value, which is measured as the present value of their future cash flows. The discounts on those amounts are computed using risk-adjusted interest rates applicable to the years in which the promises are received. Amortization of the discounts is included in contribution revenue. Conditional promises to give are not included as support until the conditions are substantially met.

Note Y: Promises to Give

Included in "Contributions Receivable" are the following unconditional promises to give:

	20X1	*20X0*
Capital campaign	$1,220	
Restricted to future periods	795	$530
Unconditional promises to give before unamortized discount and allowance for uncollectibles	2,015	530
Less: Unamortized discount	(180)	(24)
Subtotal	1,835	506
Less: Allowance for uncollectibles	(150)	(30)
Net unconditional promises to give	$1,685	$476
Amounts due in:		
Less than one year	$1,220	
One to five years	725	
More than five years	70	
Total	$2,015	

Discount rates ranged from 4 percent to 4.5 percent and from 3.5 percent to 4 percent for 20X1 and 20X0, respectively.

In 20X0, the organization received $650 for a capital campaign, which must be returned if the organization does not receive $1,300 in donations to the capital campaign. The $650 received was recorded on the 20X0 statement of financial position as a refundable advance. In 20X1, the organization received $500 in cash donations and $865 in unconditional promises to give to this campaign. As a result, the $650 was recognized as temporarily restricted contributions in 20X1.

In addition, the organization received the following conditional promises to give that are not recognized as assets in the statements of financial position:

	20X1	*20X0*
Conditional promise to give upon the establishment of a library program	$ 100	$100
Conditional promise to give upon obtaining $2,500 in unconditional promises to give to the capital campaign	5,000	

[The following disclosure is encouraged but not required.]

The organization received an indication of an intention to give from an individual long-time donor. The anticipated gift is an extensive collection of pre-Columbian textiles with great historical and artistic significance. The value of this intended gift has not been established, nor has the gift been recognized as an asset or contribution revenue.

Example 3—Accounting Policy for Contributed Property and Equipment

Note X: Summary of Significant Accounting Policies

Contributed property and equipment is recorded at fair value at the date of donation. In the absence of donor stipulations regarding how long the contributed assets must be used, the organization has adopted a policy of implying a time restriction on contributions of such assets that expires over the assets' useful lives. As a result, all contributions of property and equipment, and of assets contributed to acquire property and equipment, are recorded as restricted support.

OR

Contributed property and equipment is recorded at fair value at the date of donation. If donors stipulate how long the assets must be used, the contributions are recorded as restricted support. In the absence of such stipulations, contributions of property and equipment are recorded as unrestricted support.

Example 4—Contributed Services

The organization recognizes contribution revenue for certain services received at the fair value of those services. Those services include the following items:

	20X1	*20X0*
Home outreach program:		
Salaries:		
Social work interns—261 and 315 hours at $12.00 per hour	$ 3,132	$ 3,780
Registered nurse—200 and 220 hours at $15.00 per hour	3,000	3,300
Total salaries	6,132	7,080
Management and general:		
Accounting services	10,000	19,000
Total contributed services	$16,132	$26,080

In addition, approximately 80,000 hours, for which no value has been assigned, were volunteered by tutors in the home outreach program.

Example 5—Beneficial Interest in Assets Held by Others

In 19XX, the organization transferred $1,000,000 from its investment portfolio to the Any Town Community Foundation to establish an endowment fund. Under the terms of the agreement, in the first quarter of each year, the organization receives a distribution equal to the investment return generated by the transferred assets during the prior year. The organization can withdraw all or a portion of the original amount transferred, any appreciation on those transferred assets, or both, provided that a majority of the governing boards of the organization and the Foundation approve of the withdrawal. At the time of the transfer, the organization granted variance power to the Foundation. That power gives the Foundation the right to distribute the investment income to another not-for-profit organization of its choice if the organization ceases to exist or if the governing board of Any Town Community Foundation votes that support of the organization (*a*) is no longer necessary, or (*b*) is inconsistent with the needs of the Any Town community. At June 30, 20X1, the endowment fund has a value of $1,234,567, which is reported in the statement of financial position as beneficial interest in assets held by others.

EXCERPT FROM CHAPTER 7, "OTHER ASSETS"

[*Paragraph 7.17 is reprinted as follows.*]

Illustrative Disclosures

7.17 This section provides examples of notes to the financial statements that illustrate some of the financial statement disclosures concerning collection items.

Example 1—Not-for-Profits (NFPs) That Capitalize Collections

Note X: Summary of Significant Accounting Policies

The organization has capitalized its collections since its inception. If purchased, items accessioned into the collection are capitalized at cost, and if donated, they are capitalized at their fair value on the accession date (the date on which the item is accepted by the Acquisitions Committee of the Board of Trustees). Gains or losses on the deaccession of collection items are classified on the statement of activities as unrestricted or temporarily restricted support depending on donor restrictions, if any, placed on the item at the time of accession.

Example 2—NFPs That Capitalize Collections Retroactively

Note X: Summary of Significant Accounting Policies

In 19X1, the organization capitalized its collections retroactively. To the extent that reliable records were available, the organization capitalized collection items acquired prior to 19X1 at their cost at the date of purchase or, if the items were contributed, at their fair value at the accession date (the date on which the item was accepted by the Acquisitions Committee of the Board of Trustees). Other collection items, particularly those acquired prior to 19X1 when detailed curatorial records began to be maintained, have been capitalized at their appraised or estimated current market value. In some cases, collection items held solely for their potential educational value or historical significance were determined to have no alternative use and were not assigned values for the purpose of capitalization. The collection items capitalized retroactively were determined to have a total value of $11,138,100.

Example 3—NFPs That Capitalize Their Collections Prospectively

Note X: Summary of Significant Accounting Policies

Collection items acquired on or after July 1, 19X0: Accessions of these collection items are capitalized at cost, if the items were purchased, or at their fair value on the accession date (the date on which the item is accepted by the Acquisitions Committee of the Board of Trustees), if the items were contributed. Gains or losses from deaccessions of these items are reflected on the statement of activities as changes in the appropriate net asset classes, depending on the existence and type of donor-imposed restrictions.

Collection items acquired prior to July 1, 19X0: Collection items accessioned prior to July 1, 19X0 were recorded as decreases in unrestricted net assets, if the items were purchased. No financial statement recognition was made for contributed collection items. Proceeds from insurance recoveries or deaccessions of these items are reflected on the statements of activities as changes in the appropriate net asset classes, depending on the existence and type of donor-imposed restrictions.

Note Z: Collections

The organization's collections are made up of artifacts of historical significance, scientific specimens, and art objects. Each of the items is cataloged for educational, research, scientific, and curatorial purposes, and activities verifying their existence and assessing their condition are performed continuously.

During 20X1, a significant number of American pioneer artifacts from the 1800s were destroyed while in transit to an exhibition in which they were to be displayed. Because those items were purchased prior to July 1, 19X0, the insurance proceeds of $22,000, which reimbursed the organization in full for the artifacts' fair value, are reflected as an increase in unrestricted net assets on the statement of activities. No other collection items were deaccessioned in 20X1 or 20X0.

Example 4—NFPs That Do Not Capitalize Collections

Note X: Summary of Significant Accounting Policies

The collections, which were acquired through purchases and contributions since the organization's inception, are not recognized as assets on the statement of financial position. Purchases of collection items are recorded as decreases in unrestricted net assets in the year in which the items are acquired, or as temporarily or permanently restricted net assets if the assets used to purchase the items are restricted by donors. Contributed collection items are not reflected on the financial statements. Proceeds from deaccessions or insurance recoveries are reflected as increases in the appropriate net asset classes.

Note Z: Collections

The organization's collections are made up of artifacts of historical significance, scientific specimens, and art objects that are held for educational, research, scientific, and curatorial purposes. Each of the items is cataloged, preserved, and cared for, and activities verifying their existence and assessing their condition are performed continuously. The collections are subject to a policy that requires proceeds from their sales to be used to acquire other items for collections.

During 20X1, a significant number of American pioneer artifacts from the 1800s were destroyed while in transit to an exhibition in which they were to be displayed. These artifacts were contributed in 20XX, with a restriction that limited any future proceeds from deaccessions to acquisitions of artifacts from a similar period. As a result, the insurance proceeds of $22,000, which reimbursed the organization in full for the artifacts' fair value, are reflected as an increase in temporarily restricted net assets on the statement of activities. No other collection items were deaccessioned in 20X1 or 20X0.

EXCERPTS FROM CHAPTER 13, "EXPENSES, GAINS, AND LOSSES"

[*Paragraphs 13.32 and 13.101 are reprinted as follows.*]

13.32 Paragraphs 13–15 of FASB ASC 958-225-55 illustrate three ways in which the NFP could display the results of the special event as part of its statement of activities, as follows:

Case A		
Changes in unrestricted net assets:		
Contributions		$200
Special event revenue	100	
Less: Costs of direct benefits to donors	(25)	
Net revenues from special events		75
Contributions and net revenues from special events		275
Other expenses:		
Program		60
Management and general		20
Fundraising		35
Total other expenses		115
Increase in unrestricted net assets		$160

Case B	
Changes in unrestricted net assets:	
Revenues:	
Contributions	$200
Special event revenue	100
Total revenues	300
Expenses:	
Program	60
Costs of direct benefits to donors	25
Management and general	20
Fundraising	35
Total other expenses	140
Increase in unrestricted net assets	$160

Case C		
Changes in unrestricted net assets:		
Contributions		$270
Dinner sales	30	
Less: Costs of direct benefits to donors	(25)	
Gross profit on special events		5
Contributions and net revenues from special events		275
Other expenses:		
Program		60
Management and general		20
Fundraising		35
Total other expenses		115
Increase in unrestricted net assets		$160

13.101—APPENDIX D: EXAMPLES OF DISCLOSURES

1. Example 20 (paragraphs 167–170) of Financial Accounting Standards Board (FASB) *Accounting Standards Codification* (ASC) 958-720-55 illustrates the disclosures discussed in FASB ASC 958-720-50-2 (paragraphs 13.89–.90). Case A shows the required and encouraged information in narrative format. Case B reports that information in tabular format, as well as information concerning joint costs incurred for each kind of activity by functional classification, which is neither required nor encouraged, but which is not prohibited.

Case A: Narrative Format

Note X: Allocation of Joint Costs

In 20XX, Not-for-Profit Entity T conducted activities that included requests for contributions, as well as program and management and general components. Those activities included direct mail campaigns, special events, and a telethon. The costs of conducting those activities included a total of $310,000 of joint costs, which are not specifically attributable to particular components of the activities (joint costs). [Joint costs for each kind of activity were $50,000, $150,000, and $110,000 respectively.] These joint costs were allocated as follows.

Fundraising	$180,000
Program A	80,000
Program B	40,000
Management and general	10,000
Total	$310,000

Note that the bracketed sentence is a disclosure that is encouraged but not required.

Case B: Tabular Format

Note X: Allocation of Joint Costs

In 20XX, Not-for-Profit Entity T conducted activities that included appeals for contributions and incurred joint costs of $310,000. These activities included direct mail campaigns, special events, and a telethon. Joint costs were allocated as follows.

	Direct Mail	*Special Events*	*Telethon*	*Total*
Fundraising	$40,000	$ 50,000	$ 90,000	$180,000
Program A	10,000	65,000	5,000	80,000
Program B		25,000	15,000	40,000
Management and general		10,000		10,000
Total	$50,000	$150,000	$110,000	$310,000

Note that shading is used to highlight information that is not required, encouraged, or prohibited. However, NFPs may prefer to disclose it. Disclosing the total joint costs for each kind of activity ($50,000, $150,000, and $110,000) is encouraged but not required.

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